

Pacific Islands Development Program

PIDP

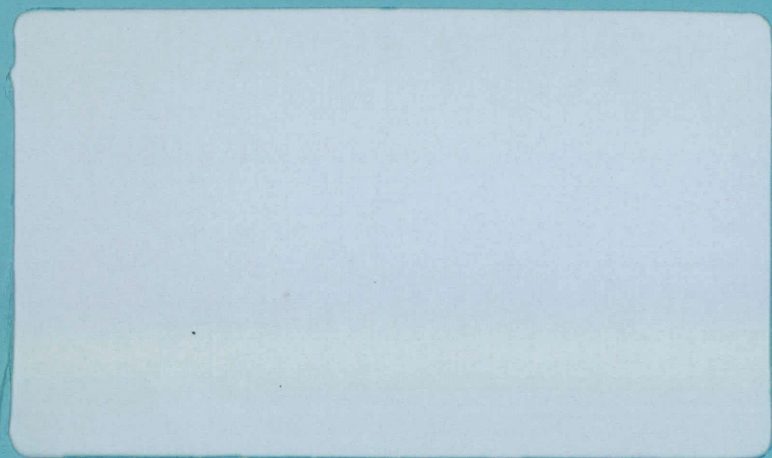
ENTREPRENEURSHIP IN THE COOK ISLANDS

by

**Te'o I. J. Fairbairn
with Janice M. Pearson**



EAST-WEST CENTER



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PREFACE

This study addresses small indigenous business development and entrepreneurship in the Cook Islands. It forms part of a series of case studies of indigenous business development in the Pacific islands region requested of the Pacific Islands Development Program (PIDP) by the Standing Committee of the Pacific Islands Conference at its inaugural meeting held in Pago Pago in 1981. Concerned about the apparently high failure rate and the need to boost the development of indigenous business, the Standing Committee saw the value of a research project that would identify and analyze the social and economic factors contributing to success or failure of indigenous businesses. In line with this wish, the project commenced in early 1984. At the time of writing, detailed studies had been completed for seven island countries—the Cook Islands, Fiji, the Marshall Islands, Solomon Islands, Tonga, Papua New Guinea, and Western Samoa.

The study is based on information collected during fieldwork in the main island of Rarotonga and two outer islands—Aitutaki and Atiu—during the period May—June 1984. Extensive interviews with a sample group of indigenous entrepreneurs, supplemented by a detailed questionnaire, yield information on vital aspects of indigenous business including business, background, reasons for going into business, operational problems, business performance, and government support measures. Additional information was obtained in discussions and interviews with government officials and representatives of the business sector, mostly in Rarotonga.

Data collection in the field was undertaken by a small team comprising the writer (for two weeks), PIDP associate participant Mr. John Tau, and PIDP intern Mr. George Michael. Both Mr. Tau and Mr. Michael outlined major findings of the survey in drafts that were useful in preparing the final report. Chapter 4, Support Measures for Private Sector Development, and the two annexes were prepared by Ms. Janice Pearson, PIDP intern.

Two external sources contributed funds for the study. The costs for the two participating interns were met by a grant from the New Zealand government. A share of the remaining costs was funded by USAID, Suva, out of a larger grant made to the project.

The study highlights major characteristics of indigenous entrepreneurship in the Cook Islands, establishes the nature and severity of the major problems encountered in operating small businesses, and draws attention to the special problems of doing business on two outer islands. It identifies some of the salient factors making for success and concludes by proposing recommendations for ways to strengthen indigenous entrepreneurship, particularly in relation to transportation, marketing arrangements, access to capital funds, and training.

It is hoped that the results of this study will prove of value not only in fulfilling the wishes of the Standing Committee but also in providing a substantive basis for policy formation that will, in time, significantly advance the cause of indigenous entrepreneurship in the Cook Islands.

ACKNOWLEDGMENTS

I owe a debt of gratitude to a great many people in the Cook Islands, both in government and in the private sector, for assistance in carrying out this study. Special thanks are due to Mr. Jon Jonassen, Secretary of Foreign Affairs, for his cooperation in setting up field surveys; to Mr. A. Turua, Government Statistician, for providing basic statistical data on the business sector; and to both Mr. T. Manuela, Director of the Department of Development Planning, and Mr. P. L. Jones, Manager of Cook Islands Development Bank (CIDB), each of whom made available one of their officers to serve as research interns at various stages of the project.

The generous support received from officers of the Department of Agriculture and the Department of Trade, Labour and Transport in Atiu and Aitutaki in particular is gratefully acknowledged, as is the overall cooperation and personal kindness received from all those interviewed in the business sector.

The final stages of the study benefited greatly from the typing expertise of Ms. Titilia Barbour for which I am most grateful.

ABBREVIATIONS

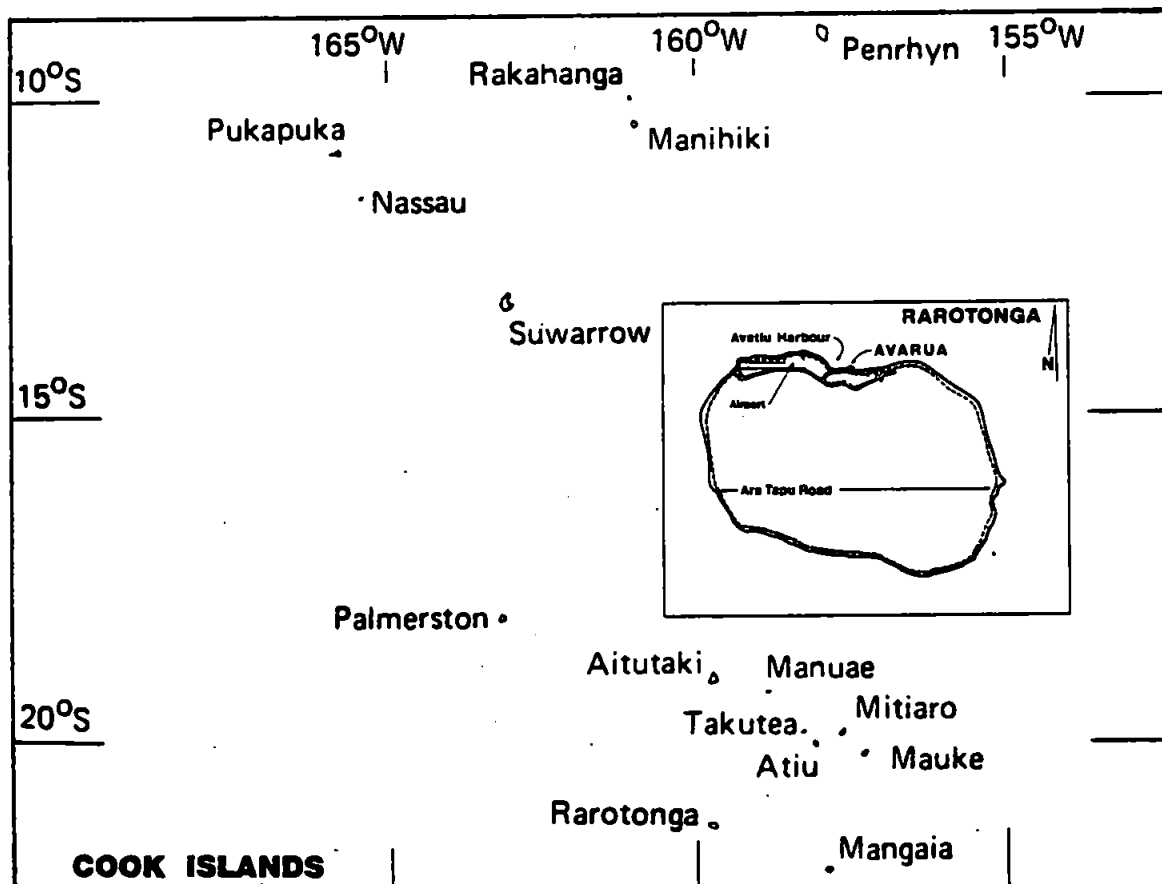
ADB	Asian Development Bank
CIDB	Cook Islands Development Bank
CIOC	Cook Islands Christian Church
EEZ	Exclusive Economic Zone
GDP	gross domestic product
SSA	Seasonal Services Advances Scheme
NGO	Nongovernment Organization
PIIDS	Pacific Islands Industrial Development Scheme
TLT	Department of Trade, Labour and Transport
USP	University of the South Pacific

DEFINITIONS

Ariki	a paramount chief (normally hereditary)
Mataiapo	a chief of lesser status than Ariki

NOTES

Unless otherwise indicated, values are expressed in New Zealand dollars, the official currency of the Cook Islands. At the time of the field surveys (May—July 1985), the rate of exchange was NZ\$1 = about US\$0.50; at the time of writing (February 1987) it was NZ\$1.00 = US\$0.56.



EXECUTIVE SUMMARY

This study concerns indigenous business development and entrepreneurship in the Cook Islands. It stems directly from a resolution made in 1981 by the Standing Committee of the Pacific Islands Conference calling on the Pacific Islands Development Program (PIDP) to carry out a research project that would analyze the socioeconomic factors making for success or failure of indigenous entrepreneurs in the South Pacific island region. Six other Pacific island countries have been studied as part of the overall project.

The Standing Committee resolution reflects a regionwide interest in indigenous business development. For the Cook Islands this interest is ramified through a wish to encourage an even greater participation of Cook Islanders in the development process, to expand employment opportunities, to achieve balanced development, and, above all, to strengthen the productive economy through private sector activity.

The specific major components of this study are as follows:

1. An analysis of government strategies, policies, and support measures that have been put in place to foster indigenous entrepreneurship and private sector development.
2. An identification of the main characteristics of indigenous entrepreneurship and the underlying motives for participation in business.
3. An outline and analysis of the major constraints and problems confronting indigenous businessmen, drawing distinctions where they are significant between the situations in Rarotonga and in the two outer islands of Aitutaki and Atiu.
4. An identification of the principal factors that appear to contribute to successful indigenous entrepreneurship.
5. Recommendations for policies to further assist and promote indigenous entrepreneurship.

Surveys were conducted in the islands of Rarotonga, Aitutaki, and Atiu during May—July 1985 to collect basic information from indigenous businessmen. In each location an attempt was made to establish a survey sample representative of the overall business sector. Discussions and interviews were also carried out with government officials and representatives of the private sector to complement the information collected from the formal business surveys.

Support measures

A comprehensive set of support measures is available to encourage private sector development; the commercial bank and private consultants also play a part in this process. Among the major support facilities are the Development Investment Act of 1977 and the Development Investment Code,

administered by the Monetary Board and designed, among other things, to provide financial incentives for priority investment projects; the Cook Islands Development Bank (CIDB), which provides development capital and business advice; and various training programs.

The range of financial incentives, including low company tax rates, taken in combination with other supporting measures, provides a fairly favorable business climate. However, major weaknesses remain, particularly in arrangements for administering investment incentives and in commercial banking services, CIDB's business advisory role, and training.

Entrepreneurship

Indigenous entrepreneurship in the Cook Islands is dominated by Maori of mixed ancestry running small family businesses. Typically, the entrepreneur is a mature person, most often male (although females make a larger contribution to the business than appears on the surface), well educated and widely traveled (especially to New Zealand) for purposes of training and gaining work experience. He, assisted by his family, starts his own business, using his own funds (usually a small amount) and remains involved in other "secondary" activities, particularly agriculture, both commercial and subsistence. His motives for entering business are predominantly economic—to make money, to improve living standards, and to support the family.

Problems

The main problems encountered by the indigenous business group were as follows:

1. Inadequate transportation. The need for better transportation was widely felt, especially by commercial growers, importers from overseas and outer island producers. Shipping services were said to be irregular, infrequent, and marked by inadequate cargo space, especially from New Zealand. Problems with air transportation were inadequate cargo facilities for fresh produce and the effect of infrequent flights on tourism.
2. Weak marketing. Weak local markets hampered many enterprises, especially those oriented to the domestic market. Poor marketing institutions affected many export enterprises but also posed problems for operators in the tourism sector. Farmers pointed to the lack of suitable postharvest facilities and to the absence of efforts by government to develop new overseas markets and to secure better prices.
3. Shortage of capital. The shortage of capital needed for business expansion and related purposes was most widely felt in Rarotonga. Both the CIDB and the local commercial bank were criticized for their highly restrictive loan policies and for offering generally poor service. Commercial banking services in the outer islands remain undeveloped.

4. Shortage of skilled workers. The shortage was particularly problematical for businesses calling for a high level of technical skills and experience. This continuing shortage is caused, in part, by heavy emigration in the past. The high cost of supervision and weakness of motivation were also causing problems in some cases.
5. Insufficient government support. Several aspects of government policy were commented upon critically (although perhaps without real foundation in some cases). It was pointed out by some entrepreneurs that the import levy on certain goods was too high, that the taxation system were too complex, and that training facilities was inadequate. Also, government had failed to take action to control competitive imports and to restrain local monopolies.

Success factors

Almost all the entrepreneurs surveyed saw themselves as operating successfully; the majority had operated for many years, were making a profit, and were confident of the future. This state of affairs can be explained in part by the personal qualities of the entrepreneurs themselves, particularly their capacity for hard work, their honesty and reliability, and their ability to get along with customers. In part, success can be attributed to management skills; for example, to keep tight control of bad debts. Other important contributing factors included the generally high level of education, personal influence over family resources, the spreading of risk through involvement in other forms of economic activity, and extensive overseas exposure, particularly to gain work experience, education, and training.

Recommendations

The principal recommendations stemming from the study are as follows:

1. Improve shipping and air services to achieve more regular and reliable services, to ensure adequate cargo space for agricultural products, and to meet the special needs of the outer islands.
2. Develop new marketing outlets for exports and improve local infrastructure, including postharvest storage facilities for agricultural products; strengthen local marketing services and organizations.
3. Encourage CIB to become more responsive to the special needs of the indigenous business sector, particularly the need to improve access to development finance, business advice, and training.
4. Improve commercial banking facilities so as to play a more positive part in the development of the small indigenous business sector. Possibilities include simplifying lending procedures; improving services in the outer islands, including the

establishment of branches and agencies where feasible; introducing a special concessionary loan scheme for indigenous entrepreneurs; and possibly establishing another bank.

5. Upgrade the role of the Department of Trade, Labour and Transport, particularly in coordinating and servicing indigenous entrepreneurs, providing information on new business opportunities, giving basic managerial and technical advice, and helping to prepare loan submissions and market studies.
6. Reinforce training programs to build up basic skills—a task calling particularly for more effective coordination of the training work already being performed by several other local agencies.
7. Simplify the system for collecting proceeds from the turnover tax so as to reduce the administrative burden carried by the business sector.
8. Abstain from competing with the private sector where government involvement is not essential.
9. Make more information available to indigenous businessmen through the media in the form of regular business and news programs to make them more aware of available opportunities, ways of going about starting a business, and related matters.
10. Seek to achieve a better understanding of the business sector and to improve channels of communication; consider involving business leaders in formulating and evaluating national development plans.

Chapter 1. STUDY OBJECTIVES AND HISTORICAL PERSPECTIVE

Background and objectives

This study concerns indigenous entrepreneurship and business development in the Cook Islands. It is part of a broader research project on indigenous business development that the Standing Committee of the Pacific Islands Conference in 1981 directed PIDP to carry out. In proposing this project, the Standing Committee acknowledged the need for a thorough policy-oriented study that would promote clearer understanding of indigenous business in the region and suggest possible strategies and policies for development. Such a study would entail, among other things, examining the nature of indigenous entrepreneurship, analyzing of the socioeconomic factors making for success or failure of indigenous business ventures, and identifying policy measures capable of strengthening indigenous entrepreneurship.

The Standing Committee's proposal reflected the importance Pacific island governments and administrations attach to indigenous business development and to the growth of the private sector. A leading concern is the apparently high failure rate experienced by indigenous entrepreneurs and the need to improve their performance if they are to play a more active part in the growth process and avoid the resource wastage associated with business failure. Other important considerations underlying a wish to boost indigenous entrepreneurship include

- . the attainment of a more balanced pattern of development among major economic groups as a safeguard against undesirable sociopolitical consequences of unbalanced growth;
- . the promotion of employment expansion and a more equitable distribution of income through small-scale enterprises requiring minimal capital investment;
- . the more intensive exploitation of indigenous resources, both human and material, for development;
- . the need to provide a basis for building up business experience and developing entrepreneurial skills; and
- . the desire to contribute, along with other private sector groups, to achieving a more productive economy.

In line with the wishes of the Standing Committee, this study focuses on key aspects of indigenous business development in the Cook Islands set against the framework of the private sector as a whole. The principal components are as follows:

- . an outline of existing support measures and facilities for indigenous entrepreneurship and private sector development;
- . an examination of indigenous entrepreneurship and its principal characteristics and motives;

- . an outline and analysis of major constraints and problems encountered by indigenous entrepreneurs, including those affecting entrepreneurs on two outer islands;
- . an identification of factors contributing to business success; and
- . a presentation of recommendations for measures to boost indigenous entrepreneurship.

To lead into the analysis, the study begins with an outline of the main characteristics of the Cook Islands economy and a review of the relationship between entrepreneurship and economic growth. (The latter is a somewhat formal discussion based on a review of the literature; it may be skipped by the reader. A review of government policies affecting the private sector is given in Annex A.)

The study is based on data derived from field surveys in the main island of Rarotonga and two outer islands in the southern group, Aitutaki and Atiu. The surveys were carried out in May--July 1985 by two principal investigators, Mr. John Tau and Mr. George Michael, PIDP associate fellow and intern respectively. The writer also participated in field data collection for a period of two weeks in June 1985.

The survey covered a sample group of 44 indigenous business ventures of which 28 were located in Rarotonga, 9 in Aitutaki, and 7 in Atiu. The sample businesses were all small (typically involving three or four persons and an annual sales volume under \$50,000) and drawn from a cross-section of the business sector on each island. The overall business sector was heavily skewed in favor of small trading and service concerns, particularly for the two outer islands, as will be seen in the studies of the sample enterprises for those islands.

Data and information were collected through detailed on-the-spot interviews with each entrepreneurs. Interviewing was facilitated by the use of a detailed questionnaire, a copy of which is found in Annex C. Supplementary data were obtained from discussions with government officials and representatives of the private sector.

In line with project directives, this study focuses on indigenous entrepreneurs as opposed to expatriate businessmen associated with large enterprises, including multinational and joint-venture operations. However, the term indigenous is interpreted loosely here; it applies essentially to Cook Islanders and to a few expatriate residents owning and running small businesses. The indigenous group covered by the sample is dominated by local residents of Maori-European ancestry. (Few Cook Islanders can claim to be pure Maori in origin.) The group also includes a number of expatriate entrepreneurs who have married Cook Islanders and who consider themselves local residents and one enterprise owned and operated by an expatriate couple who had settled in Rarotonga as permanent residents.

Entrepreneurship in perspective

The economic history of the Cook Islands shows that the indigenous inhabitants responded favorably to trading opportunities that came with the establishment of effective contact with the outside world in the 1820s. Indigenous entrepreneurship flourished particularly in the 1860s, following the "missionary" phase, and up to the early 1900s, when the island group was annexed (1901) by New Zealand.

According to Gilson (1980:54), the leading figures during this period of active indigenous entrepreneurship were a group of "chiefly entrepreneurs." These chiefs had gained control of the export trade, principally with visiting whalers, selling them such products as pigs, poultry, fruit, and vegetables. Especially during the period of the British Protectorate beginning in 1888, the island group, in Crocombe's view (Crocombe 1962:20), "saw more development of indigenous economic enterprises than the group has even seen." The chiefly entrepreneurs, as heads of their respective lineages, took it upon themselves to organize production, control marketing, and operate schooners that traded throughout the group, as well as with Tahiti and even New Zealand.

Unfortunately, these entrepreneurial endeavors came to an abrupt end soon after annexation and the imposition of colonial rule. The New Zealand administration very quickly introduced a highly centralized system of local rule that eroded the powers of the traditional chiefs (the *ariki* and lesser chiefs). Among other things, the chiefs were stripped of their powers to organize production, and their marketing functions were annulled or subjected to the control of local New Zealand administrators. As a consequence, production along family lines ceased, as did the operation of indigenously owned trading schooners.¹

Indigenous entrepreneurship remained dormant and unfulfilled for much of the period of New Zealand administration (1901--1964). Not only was it effectively stifled by the above measures; at least up to the mid-1930s, it also suffered from the effects of an official policy that promoted welfare programs rather than economic development. It was also affected detrimentally by government initiatives in economic development that did little directly to foster indigenous entrepreneurship. Such initiatives, including efforts to develop tomato and citrus export industries, were

¹ The rise and fall of chiefly entrepreneurs in early Cook Islands history is closely paralleled in the experience of the neighbor island of Tahiti. According to Finney (1971:18), trade between Tahiti and the outside world during the early 19th century was dominated by a handful of leading chiefs who applied their chiefly prerogatives to commercial relations with Europeans. They were leading figures in the pork trade and in the sale of coconut oil, arrowroot, mother-of-pearl shells, and pearls. However, as in the Cook Islands, the "trader-chiefs" period ended abruptly in the early 1840s with the French takeover (1842) coupled with the effects of depopulation and constraining missionary laws.

oriented toward agriculture to the neglect of other sectors and relied heavily on government assistance including financial subsidies.

Although the period of New Zealand administration was unfavorable for indigenous entrepreneurial activity, it was the time when the leading foreign-owned enterprises set up their operations in Rarotonga. The operations included those of individual European investors, particularly New Zealanders, and branches or affiliates of major multinational cooperations. The pattern established then remains little changed to this day, with multinationals dominating such key economic services as banking, insurance, accounting, transport, telecommunications, oil distribution, and contracting (Maiava 1983). Only a few areas of indigenous involvement were left, among them (apart from farming) small village trading, motel services, taxis, restaurants, and entertainment.

Recent official declarations committing government to strengthening the role of the private sector in the development process (see Chapter 4) should do much to stimulate indigenous entrepreneurship. Specific policy measures recently put in place to foster private sector development appear to have stimulated indigenous activity in certain sectors of the economy, notably tourism services and trading. However, although the overall policy framework is now much more positive, much remains to be done to further awaken the latent entrepreneurial capacities of Cook Islanders. This study will have achieved its purpose if it provides practical guidelines to show how this potential can be realized.

Chapter 2. ENTREPRENEURSHIP AND GROWTH

Economists have found it difficult to deal with the concept of entrepreneurship. Problems arise in defining it and in identifying the role and significance of entrepreneurs in the growth process. Lack of agreement on these and related matters has given rise to differing theories of entrepreneurship and to differing perceptions of the functions of entrepreneurs. Not only have these issues engaged the attention of economists—and they have done so since the early 19th century—but they have also attracted considerable attention from noneconomists, especially sociologists, psychologists, and anthropologists.

In economic literature, the entrepreneur has been depicted as a risk-bearer, a supplier of capital, an innovator, a manager, a gap-filler, or a combination of some of these and related roles.

The notion of the entrepreneur as a risk-bearer goes back to the early 18th century but is associated mainly with Knight (1921). Writing in the early 1900s, Knight saw entrepreneurs as a specialized group who bear uninsurable risks and deal with uncertainty in the quest for profit. The entrepreneur's role as a supplier of capital was espoused by Adam Smith (Harbison 1961:310) who saw the entrepreneur as a proprietary capitalist—a supplier of capital and simultaneously a manager who intervenes between laborers and consumers. The entrepreneur's innovatory role was given primacy by Schumpeter (1934), who saw it as entailing the carrying out of new combinations of factors of production and distribution. The entrepreneur's role as a manager was stressed by Say (Kent 1984:2), who envisaged the entrepreneur as one who brought together the factors of production (and assumed risk) in such a way as to create new wealth.

Several contemporary economists have stressed other functions or elements of the above functions. Leibenstein (1968:73), for example, argues that the entrepreneur is essentially a gap-filler, especially in the sense of coordinating intermarket activities; Kilby (1971:28) sees him as one who perceives market opportunities and gains command over scarce resources; and Kirzner (Kent 1984:3—4) as one who perceives what others have not seen and acts upon that perception.

Several economists, including Marshall (1961), take a more comprehensive view, seeing the entrepreneur as one who carries out a combination of functions, including risk-taking, management and organization, and innovation.

Schumpeter's representation of the entrepreneur as an innovator who arranges new combinations of resources was a major breakthrough in the analysis of entrepreneurship. As Kilby (1971:3) writes of Schumpeter's contribution, "his innovation represents not only the first dynamic concept of the entrepreneurial functions, but he is the first major writer to put the human agent at the center of the process of economic development." The innovating entrepreneur was viewed as a heroic figure who was at the heart of the process of economic development. His roles encompassed introducing new goods and methods of production, opening new markets, exploiting new sources of materials, and rearranging markets. These functions, distinct

from purely managerial tasks, are crucial for ensuring economic growth and avoiding stagnation. Since the innovation phase of a major initiative may be short lived, an individual's status as an entrepreneur will tend to be ephemeral.

The traditional treatment of entrepreneurship has tended to focus on the entrepreneur as an individual, but recent treatments have broadened the concept. Harbison (Okun and Richardson 1961:311), for example, has argued that with the increased complexity of business firms, the entrepreneurial functions as risk-taking and innovation are no longer performed by a single individual but by a hierarchy of individuals. In essence, the entrepreneur is an organization comprising all those required to carry out entrepreneurial functions. Harbison maintains that such an "entrepreneurial organization" can be treated as a resource like labor or capital and can be measured quantitatively.

Another variant is the concept of the family as entrepreneur (Nafziger 1984:314). Basic decisions affecting the enterprise are made within the family or clusters of families rather than by an individual entrepreneur, although a single member, usually the father or the eldest son, may play a dominant part. This concept of entrepreneurship has particular relevance for business development in the developing third-world countries.

The significance of entrepreneurship

Neither the functions nor the significance of entrepreneurs is brought out specifically in economic theories dealing with growth or with the behavior of firms.

In the case of growth theory, this neglect can be seen from an examination of the neoclassical models that represent the most sophisticated extension and refinement of classical thinking (Swan 1956, Solow 1956, Meade 1961). In these models a unique equilibrium growth rate is derived from the interactions among three basic variables: capital accumulation, population growth, and technical change (representing growth in productivity), allowing for factor substitution. The entrepreneur, who scarcely receives mention, plays a managerial role, largely behind the scenes; he is responsible for making decisions and adjusting the key variables necessary for achieving equilibrium growth. His part in introducing major innovations is not explored.

As they stand, these growth models are not helpful in promoting understanding of entrepreneurship in the growth process. One reason is the implicit assumption that entrepreneurs are always available and that the supply is elastic in response to changes in demand. Such an assumption may be unrealistic, given the many bottlenecks that could hamper the emergence of entrepreneurs (Kilby 1971:26). Another flaw follows from a failure to specify entrepreneurship as a separate factor input; its contribution to economic growth thus becomes enmeshed with other components that, in these models, normally appear under the guise of technical change.

The entrepreneur does not fare any better under theories of the firm. Here his decision-making powers are largely managerial, focused on maximizing adjusting output, the production process, and the like. He

becomes a passive agent responding to fortuitous external developments leaving no room for entrepreneurial initiative. This state of affairs has led Baumol (1968:66) to pronounce that "the theoretical firm is entrepreneurless . . . The Prince of Denmark has been expunged from the discussion of Hamlet."

Nonetheless, the management factor bears heavily on the assumptions regarding costs in standard microeconomic theory. The intensity with which management is used by a firm over the relevant range of production affects the level of efficiency and is reflected in the familiar U-shaped average cost curves, both short- and long-term. On major entrepreneurial innovations, it must be admitted that current microeconomic theory helps a little in analyzing their impact and consequences. In principle, a major innovation would lead to the creation of a monopoly, with the corollary of monopoly profit, but current theory provides no clear guidelines on what happens after that (Baumol 1968:68), although the possibility of product and/or process imitation as a means of restoring competitive conditions (as envisaged by Schumpeter) offers one possible line of development.

The hiatus in formal economic theory contrasts sharply with the importance attributed to entrepreneurship in the growth process by many economists. Schumpeter's innovating entrepreneur with a central role in economic growth was noted above. Other observers have also acknowledged the critical role of entrepreneurship in the growth process. Thus, according to Kaldor (Denison 1962:163),

the innovating entrepreneur . . . is found to have an honorable place, or even a key role . . . [in] economic expansion [and] " . . . the most plausible answer to the question of why some human societies progress so much faster than others is to be sought . . . not so much in fortuitous accident . . . or in favorable natural environment . . . but in human attitudes to risk-taking and money-making.

And Baumol (1968:17) has remarked, "I am convinced that encouragement of the entrepreneur is the key to the stimulation of growth." Similar views have been expressed by Hirschman (1958), McClelland (1970), and others.

Few attempts have been made to measure the sources of economic growth empirically those that have been attempted lend substance, albeit indirectly, to the above views concerning the importance of entrepreneurship. Among such attempts are those by Solow (1957) and Denison (1962).

Using U.S. data of private nonfarm GNP from 1909 to 1949, Solow sought to segregate variations in output per head due to technical change from variations due to changes in the availability of capital per head. A conventional production function of the Cobb-Douglas variety is used as a framework for deriving and isolating technical change. The latter is assumed to be neutral (in that marginal rates of substitution remain unchanged) and is taken to be a shorthand expression for any kind of shift in the production function due to "slowdowns, speedups, improvement in the education of the labor force and all sorts of things" (Solow 1956:312).

Solow's main conclusion was that gross output per man hour doubled over the period, with 87.5 percent of the increase attributable to technical change and the remaining 12.5 percent to increased use of capital.

Like Solow, Denison (1962) attempts to measure the sources of economic growth in the United States, but he uses a more disaggregated approach and a longer time period, 1909—57. Denison proceeds by isolating the contributions arising from individual factor inputs—capital, labor, and land—and from "increases in output per unit of input" or "productivity." Again, entrepreneurship is not specifically touched upon, but Denison found that, over the period, the growth rate of real national income per person employed was 1.44 percent per year, of which capital accounted for 17.3 percent, labor (adjusted for quality changes) 41.0 percent, land -4.8 percent, and productivity 46.5 percent (Denison 1962:149). These results are not directly comparable with Solow's, partly because of differences in the way specific factor inputs have been classified, but in general they again confirm the significance of productivity and technical change in economic growth.

The relevance of the above findings for the present analysis lies in the link between technical change and entrepreneurship. As Baumol pointed out (1968:66) technical change is associated with innovation, which requires entrepreneurial initiative in its introduction. Thus the entrepreneur cannot be ignored if full account is to be taken of a substantial source of economic growth.

The supply of entrepreneurship

Supply-side analysis of entrepreneurship has been dominated by sociologists, psychologists, and several economists relying essentially on noneconomic explanations. As pointed out above, mainstream growth theory assumed that the supply of entrepreneurs was highly elastic and that "failures in entrepreneurship are attributable to maladjustments in the external environment" (Kilby 1971:3). The forces determining entrepreneurial performance lay on the demand side—essentially a case of demand creating supply.

The dominance of noneconomic explanations of the supply of entrepreneurship is illustrated by Kilby (1971:6—26) in a recent survey showing that of the seven leading theories of entrepreneurial supply, four were psychological theories and three sociological. (He later discusses one economic theory.) Such theories highlight a variety of noneconomic causal factors influencing supply—religious forces, low social status, child-rearing practices, education, the need for personal achievement, and related factors. Among the more notable of these theories are those of Schumpeter, Hagen, and McClelland.

As noted earlier, Schumpeter's entrepreneur, through his innovating activities, was the driving force in economic growth. However, Schumpeter relied on noneconomic factors to explain the motives of the entrepreneur. According to Schumpeter, the factors that determine the level of entrepreneurial activity relate to certain psychological influences—the will to found a private kingdom, the will to conquer, and the sheer satisfaction derived from getting things done (Schumpeter 1934:93). Except

for the first of these influences, pecuniary rewards are of secondary importance. And given that new opportunities for innovation are always present, entrepreneurship will depend on how powerfully these motives operate throughout society.

Hagen (1962) stresses the importance of ideological factors in entrepreneurship. He maintains that loss of traditional status and respect has, over time, driven certain minority groups to bring up their children in ways that give them a strong urge to regain their former status. Such groups are illustrated by the Jews in Europe, the Chinese in Southeast Asia, and the Ibo in Nigeria. Success in business is seen as one means of compensating for the loss of traditional status.

McClelland (1970), a psychologist, sees entrepreneurship as being promoted by a particular human motive—the need to achieve, or "n Achievement." This concept is associated with a type of personality that values success, personal initiative, and curiosity and takes a rational and practical approach to problem solving. Success is measured by attaining excellence for its own sake rather than by accumulating of money, position, or power. Childhood experience, coupled with education, religion, and other environmental factors, plays a part in promoting n Achievement and, in turn, entrepreneurship. Business is viewed as a powerful means by which individuals with high n Achievement can excel. Where this motive is highly developed, it follows that the supply of entrepreneurs will be correspondingly high.

Conditions governing the supply of entrepreneurs in the South Pacific region remain little understood, although the present series of indigenous business studies by PIDP will help fill the gap. However, some valuable insights have been derived from studies carried out by anthropologists and sociologists during the 1950s and 1960s. Foremost among such studies are those by Crocombe and Hogbin (1963), Finney (1971, 1973), Epstein (1968, 1970) and Salisbury (1970) in the context of the then-territory of New Guinea; by Belshaw (1964) and Watters (1969) in Fiji; and by Finney (1971) in French Polynesia. These studies focus, in most cases, on the experience of particular groups within the three countries, but they nonetheless point to a number of features that may have wider interest. Several aspects are worth noting.

A first point of interest emerges from the studies of the Goroka and Tolai people by Finney, Epstein, and Salisbury. The studies show that these groups have a predisposition toward entrepreneurial activity and so can adapt readily to the requirements of the modern cash economy. A major reason is that both the Gorokans and the Tolais are strongly achievement-oriented and see business success as a means of achieving prestige and "big-man" status. Their adaptation was further fostered by certain characteristics of the traditional economy, including trade facilitated by shell money, an emphasis on the accumulation of wealth, and group pooling of resources.

Although this entrepreneurial potential provides a promising base for business development, it does not of itself ensure sustained success. Finney (1973:180) points to the need for complementary resources, particularly land, to provide opportunities for investment. Epstein (1970)

and Finney (1971) maintain that, beyond the initial phase of contact with the outside economy, further business success can be realized only by upgrading management and technical skills and widening the entrepreneur's horizons through study tours and exposure to new business possibilities.

A second feature relates to aspects of entrepreneurship in Fiji stemming from the studies by Watters and Belshaw. These studies point to the paucity of indigenous entrepreneurs in Fiji, a paucity that can be attributed to lack of official encouragement and to a conservative traditional leadership more interested in politics and administration. When the achievements of a number of successful entrepreneurs were examined, it was found that they conformed to Hagen's notion of social deviants, individuals who turn to economic activity as a means of gaining power, prestige, and self-expression (Watters 1969:215). Whether social deviants or persons from disturbed family backgrounds (Belshaw 1964:154), these entrepreneurs continue to observe and to use customary practices and traditional institutions to achieve their economic goals.

Allowing for the fact that changes in the vocational preferences of Fijian leaders are likely to be slow, these studies regard training and the creation of a favorable policy environment as the most effective avenues to increasing the supply of entrepreneurs.

A third point of interest stems from Finney's (1971) study of Tahitian entrepreneurs, which highlights the role played by demis or "half-Europeans" in the business life of Tahiti. French-Tahitian in origin, members of this group constitute 10 to 15 percent of Tahitians. They are prominent in business and white-collar vocations, and their success is European attitudes, reflected in how they run their businesses and in how they deal with indigenous Tahitians. The demis and their business achievement can be analyzed in terms of Hagen's marginal deviants, but the association of entrepreneurial success with race and the adoption of European values has particular interest for many other Pacific island countries with racially mixed minorities.

Sociologists, anthropologists, and others in related disciplines will no doubt continue to make important contributions to the entrepreneurship debate and thereby help to promote a clearer understanding of the factors that influence the supply of entrepreneurs. Economists will need to grapple with these issues and attempt to go beyond approaches based on a range of essentially arbitrary assumptions which, in effect, amount to agnosticism.

Among the signs that economists are responding is a recent contribution by Baumol. He points to the shortcomings in current theory, especially its failure to help us understand the determinants of the supply of entrepreneurs (1968:69). Given that these shortcomings are likely to persist, he argues for a theory that focuses on rewards for entrepreneurship and their determinants (e.g., attractive taxation systems and policy measures to reduce risk). He proposes emphasizing what can be done operationally to encourage entrepreneurship through direct policy action rather than relying on a slow evolutionary process as a means of

stimulating growth. According to Baumol (1968:71) the merit of this approach is that,

Without awaiting a change in the entrepreneurial drive exhibited in our society, we can learn how one can stimulate the volume and intensity of entrepreneurial activity, thus making most of what is permitted by current mores and attitudes.

Concluding Comments

The literature on entrepreneurship is extensive, but significant differences remain in perceptions of the functions of entrepreneurs and ways of dealing with them in economic theory. Economists generally agree that entrepreneurship plays a vital, if not dominant, part in economic growth, but they have not succeeded in measuring its contribution. As for the factors governing the supply of entrepreneurs, economists have generally chosen to lay this problem aside; such insights as we have stem largely from the works of noneconomists.

Formulated essentially within the context of western industrial structures, traditional concepts of entrepreneurship and its role in the economic process need to be modified for considering the problems of the less developed countries, including those in the South Pacific. Some elements of established theory are useful, others are not; much depends on the circumstances.

Schumpeter's concept of the innovating entrepreneur, for example, appears to have limited value in understanding entrepreneurship in many developing countries where the entrepreneurial task appears to lie more in applying, modifying, and adapting existing knowledge than in implementing ideas based on new discoveries. Furthermore, the fact that large, closely integrated family or kinship groups persist in many developing countries means that it may be more meaningful to focus on the family rather than on the individual as the entrepreneurial unit. The evidence derived from microlevel studies by sociologists and anthropologists also points to the need for a careful analysis of the indigenous culture and the social environment to gauge the extent of noneconomic constraints and to gain an appreciation of possible conditioning response factors that might help would-be entrepreneurs adapt successfully to the requirements of modern business.

Chapter 3. COUNTRY PROFILE

The Cook Islands comprises 15 inhabited islands with a total combined area of only 237 km² dispersed over an area of almost 2 million km² of Pacific ocean. The group is located between 156° and 167° west longitude and between 8° and 23° south latitude, some 3,000 km northeast of New Zealand. The islands are divided more or less naturally into two geographical groups: the southern group comprising 8 islands, including Rarotonga, and the northern group with 7 islands. (See Table 3.1 for names of islands and their physical characteristics.) The southern group of islands, which makes up nearly 90 percent of the total land area, is mainly volcanic in origin; the exceptions are Aitutaki, which is of volcanic and atoll origin, and Manuae and Takutea, which are of atoll origin. The islands of the northern group are all atolls.

Table 3.1 Cook Islands: Some physical and demographic characteristics

Island	Distance from Rarotonga (km)	Land area (km ²)	Population		% change	Density persons in km ² (1981)
			1971	1981		
Rarotonga	—	67.1	11,478	9,530	-17	142
Aitutaki	259	18.3	2,855	2,335	-18	127
Atiu	215	26.9	1,455	1,225	-16	45
Mangaia	204	51.8	2,081	1,364	-34	26
Manuae	230	6.2	2	12		2
Mauke	278	18.4	763	681	-11	37
Mitiaro	263	22.3	331	256	-23	11
Takutea	219	1.3	—	—	—	—
Total southern group	238 ^a	212.3	18,965	15,403	-19	73
Manihiki	1,204	5.4	452	405	-10	75
Nassau	1,246	1.2	160	134	-16	112
Palmerston	500	2.1	62	51	-18	24
Pukapuka	1,324	1.4	732	797	+9	569
Rakahanga	1,248	4.1	339	269	-21	66
Suvarrow	950	0.5	—	—	—	—
Penrhyn	1,365	9.8	612	608	-1	62
Total northern group	1,120 ^a	24.5	2,357	2,266	-4	93
Total Cook Islands	679 ^a	237.0	21,322	17,754 ^b	-17	75

Source: ESCAP/SPC 1983:2 and 26; Government of the Cook Islands 1984:9.

Note: a mean distances
b includes 85 persons at sea

Rarotonga, the largest and most populated island, is the main government administration center. With its well-established international airport and harbor facilities, it is the main outlet for exports and the source of supplies to the outer islands. The long distance between Rarotonga and many outer islands (over 1,000 km to some of the northern group islands) creates special administrative problems which add to the cost and complexity of fully using the scarce resources of these islands. This situation is compounded by variations in the development potential of the islands, calling for different strategies and approaches.

Population totaled 17,754 in 1981 and is projected at 17,243 for 1986 (Government of the Cook Islands 1986b:Section 1.4.1.), with just over half the country's population living on the main island of Rarotonga. A major feature of the population is a decline from a peak of over 21,000 during the early 1970s. Heavy overseas emigration, particularly to New Zealand, was chiefly responsible for this decline. Emigration accelerated markedly upon the 1974 completion of the international airport on Rarotonga, which opened the way for more regular and frequent flights to New Zealand. More recently, however, emigration has fallen off considerably, slowing the decline in population.

Politically, the Cook Islands had been under New Zealand administration from 1901 (following a short period as a British protectorate) until it achieved self-governing status in 1965 in association with New Zealand. Under this arrangement, New Zealand undertook to assist the Cook Islands government in external affairs and defense matters if requested. By virtue of the country's political status, Cook Islanders are New Zealand citizens with right of access to New Zealand, and locally produced goods have free and unrestricted access to the New Zealand market. The Cook Islands shares a common currency with New Zealand but is considering establishing its own currency. It also receives regular aid grants in the form of budgetary support from New Zealand which, in 1985—86, totaled \$10.4 million (Government of the Cook Islands 1986b:Section 1.1.5.), equal to about 40 percent of government budget receipts. The Cook Islands has also benefited from the New Zealand government-sponsored Pacific Islands Industrial Development Scheme (PIIDS), which provides financial assistance to New Zealand manufacturers wishing to set up operations in certain island locations in conjunction with a local partner or partners.

The heavy dependence on New Zealand aid support is longstanding; in 1985—86 it accounted for \$13.7 million (both budgetary and project-related funds) out of total available aid funds of \$15.9 million (Government of the Cook Islands 1986b:Section 1.3.4.). However, present government policy is to diversify aid sources and to phase out New Zealand budgetary support over a 20-year period. It is recognized that project-related aid from New Zealand may have to be increased to compensate for the progressive loss of budgetary support funds.

National income levels are high by developing-country standards. Gross domestic product (GDP) at current prices was an estimated \$32 million in 1983, equal to \$1,800 per head, or to \$767 per head at 1976 prices (Government of the Cook Islands 1985:Tables 1.3 and 1.4). This figure

indicates levels of real income per head achieved over the 1976—83 period, suggesting that living standards remained unchanged.

The economy

The Cook Islands economy is dominated by the service sector, which embraces government or public administration, wholesale and retail trade, tourism and related activities, communications, and transport and finance activities. In 1983, GDP generated within this sector totaled \$10.7 million out of a total GDP of \$13.5 million, or 79 percent (Government of the Cook Islands 1985:Table 1.3). This left only a modest share of GDP (21 percent) from the productive sector, comprising mainly agriculture, fishing, manufacturing, and construction. Employment in services cannot be measured precisely, but census data for 1981 suggest that at least half of the 5,810 persons recorded as "economically active" are engaged in service activities (ESCAP/SPC 1983:189).

The present economic pattern is the outcome of significant structural changes over the past two decades. Total output from the productive sector, spearheaded by agriculture, declined while output from services expanded, led by public administration under heavy foreign-aid funding and tourism-related activities. The fact that the productive sector accounted for 45 percent of GDP in 1970 as compared with the recent corresponding figure of 21 percent is most telling (Fairbairn 1985:399).

The reasons for the dramatic transformation of the economy are varied and complex. A major factor has been the loss of workers through heavy emigration to New Zealand in the 1970s, with its apparently disproportionate effect on productive activity, particularly agriculture. Another has been the growth in tourism and the consequent expansion in hotel/motel services, restaurants, transportation, entertainment, and related activities. A powerful contributing factor has been the heavy injection of funds into the public sector in the form of budgetary aid grants from New Zealand.

Foreign aid and other external influences have served to convert the Cook Islands economy into what Watters and Bertram (1985:3) call a MIRAB economy—a shorthand term for migration, remittances, aid, and bureaucracy. Such economies are driven not by export earnings but by "external rent income" derived from budgetary support, remittances from overseas relatives, and the marketing of identity in the form of philatelic sales and tourism. In the case of the Cook Islands one could now add two relatively new sources of external rent incomes: fees from the licensing of fishing rights in the country's EEZ and earnings (mainly registration fees) from tax-haven and offshore banking facilities.

For a small country, exports exhibit a fair degree of diversification, as Table 3.2 shows. Clothing dominates, but earnings from pearl shells and several agricultural products—notably pawpaws, bananas, and vegetables—are relatively large. The decline in earnings from fruit juices (citrus and pineapple) is striking; efforts are continuing to revitalize this industry by new replanting schemes, by erecting more modern processing facilities, and by developing new products.

Apart from clothing, a manufacturing activity geared almost entirely to the New Zealand market, significant increases in export earnings were received from vegetables, pawpaws, and pearl shells. Banana and copra were more stable, although sharp movements either way were experienced. Over the 1980—84 period, the increase in export earnings appeared to be above that for domestic earnings, giving them a slight increase in real terms.

Table 3.2 Exports by major categories (\$'000 f.o.b.)

Major category	1980	1981	1982	1983	1984	% Change 1980—84
Fruit juices/canned	1,051.4	819.7	196.8	47.4	7.8	-99.3
Bananas	449.4	683.6	570.9	42.2	456.3	1.6
Pineapples	140.3	42.3	33.9	66.4	52.2	-63.0
Pawpaw	113.8	378.3	674.1	743.4	966.8	750.0
Copra	504.4	348.2	433.2	315.3	1,012.9	100.8
Vegetables	140.0	192.7	462.9	734.6	407.9	191.4
Taro	27.3	26.6	147.1	19.5	16.9	-38.1
Clothing	1,294.0	2,037.6	1,950.6	2,585.9	2,718.0	110.0
Pearl Shells	317.4	322.7	165.0	140.1	632.8	99.4
Footwear	43.1	47.0	61.2	59.2	86.0	100.0
Other	109.7	116.1	284.5	136.0	157.0	43.0
Total	4,190.8	5,014.8	4,980.2	4,890.0	6,514.6	55.5

Source: Statistics Office.

Two other aspects of the export sector are worth noting. The first is its highly regional nature in the sense that the principal export products are concentrated in one or two localities. Thus, clothing and pawpaws are confined to Rarotonga; bananas to Aitutaki; pearl shells to the northern group of islands, mainly Manihiki; and 90 percent of copra to the northern group. Pineapple for juice was concentrated in Mangaia in the southern group, with some from Atiu. Fresh pineapple for the New Zealand market is currently being produced by these two islands.

A second point is the relationship between export earnings and import values. There is typically a large disparity, with export earnings usually well below the cost of imports. Thus, the value of exports in 1984 totaled \$6.5 million while that of imports was \$36.2 million (Government of the Cook Islands 1985b:9 and 21). Without the benefit of earnings from "invisible" transactions and related transfers (including tourism, foreign aid, and remittance transfers), current levels of imports could not be sustained.

Imports themselves have grown steadily; they are dominated by basic manufactures, machine and transport items, and foodstuffs. New Zealand is the dominant source, accounting for up to 90 percent of imports.

Tourism is regarded as the most promising growth industry for the immediate term. It has grown fairly strongly, reaching almost 29,000 visitors in 1985—doubling in 8 years. According to official estimates, growth in the number of visitors is likely to average 10 to 15 percent over the next few years (Government of the Cook Islands 1986:Section 4.3).

In 1984, gross earnings attributed directly to this sector totaled \$20.0 million, which nets out to an estimated \$8.0 million after accounting for various foreign exchange leakages associated with tourism.

Regular shipping at the international level is provided by a New Zealand government-owned company under an agreement between the governments of the Cook Islands, New Zealand, and Niue. Under this agreement, shipping services are provided by two vessels (each of 2,700 DWT), which between them call an average of 24 times a year. Furthermore, Aitutaki receives a twice-monthly service (on average), mainly for purposes of uplifting fresh bananas for the New Zealand market.

International flights into and out of Rarotonga total eight per week, of which three are direct links with New Zealand. Cargo capacity amounts to 72 tonnes per week and passenger capacity to 1,439 seats (Government of the Cook Islands 1986b:Section 3.6.1.)

Interisland shipping is provided by two shipping companies, one of which receives a government subsidy for fuel. Two local airline companies provide regular flights for the islands in the southern group; regular service to the northern group islands has not proven practicable.

The main financial institutions are the CIBD (see Chapter 4), a commercial bank owned by outside interests, and the Post Office Savings Bank. The institution (and, in a limited way, CIBD) provides countrywide service which, in the outer islands, is handled by local agents. Legislation has recently been passed to convert CIBD into a new bank (Bank of the Cook Islands) empowered to undertake both central bank and trading bank functions. CIBD will either operate as a part of the new bank or become a separate entity.

Government activity

The government has traditionally given priority to meeting the infrastructural and social services needs of the country's port and harbor facilities, airport and airstrips, telecommunications, roads, power, water, education, and health. In these areas, government has attempted to take into account the needs of the outer islands no less than those of Rarotonga. Efforts have also been made to establish support institutions to encourage the growth of the private sector. These include such institutions as the CIBD to serve as a catalyst for private sector development (see Chapter 4) and the Cook Islands Tourist Authority to promote the expansion of tourism. They also include a range of fiscal and related concessions that are perhaps the most liberal in the region; for example, the rate of taxation for locally registered companies is a modest 20 percent, which can, subject to ministerial approval, be reduced to 5 percent for a company that operates in approved priority areas.

Direct government participation in the economy is mainly in agricultural processing and research, tourism, and air transport. A government-owned company (Kia Orana Foods Corporation) operates a fruit-processing plant on Rarotonga and a pineapple-dehydration factory on Mangaia. The government is a majority shareholder in the country's largest hotel the Rarotongan Hotel; through the Tourist Authority, it operates a motel and a nightclub. As a minority shareholder, it also operates an airline, Cook Islands International, with Ansett, an Australian company. The distribution of imported liquor is also under government control.

Direct government support has also taken the form of cash subsidies to farmers for certain inputs (e.g., chemicals, fertilizers, power) coupled with price support; to outer island residents for electric power; and to the operators of one of two companies engaged in interisland shipping. On the latter, the government meets the full cost of fuel while the ships are operating within the Cook Islands.

Development objectives

Like many other small island countries, the Cook Islands faces many intractable problems in its quest for economic development. Some arise from smallness, both physically and demographically; others arise from geographical factors, including the remoteness and the wide dispersal of islands over a wide area of ocean, giving rise, among other things, to high cost for transportation and administration. Other problems arise from economic and management deficiencies, including a paucity of capital, technical knowledge, and entrepreneurship and technical skills. The periodic occurrence of natural disasters also poses difficulties. Recent declines in the work force brought about by heavy emigration have also made the task of promoting economic development difficult. All these factors have combined in varying degrees to bring about economic regression over the past two decades—a trend that has only recently been reversed.

Recent government efforts in development have been dictated by the need to raise the productive capacity of the Cook Islands economy and to sustain the recent upsurge in economic activity. A set of eight development objectives has been formulated as a basis for the government's development planning effort (Government of the Cook Islands 1984:12—13). These objectives, published in the Cook Islands Development Plan 1982—85, are,

- . to raise the prosperity of the people of the Cook Islands and to encourage them to remain within their home islands;
- . to attain a larger measure of economic independence;
- . to ensure that economic development proceeds in a manner compatible with social and cultural values;
- . to ensure an equitable distribution of the benefits of development;
- . to increase the level of participation of Cook Islanders in the development process;

- . to conserve natural resources and the environment for future generations;
- . to strengthen the sense of national identity;
- . to cooperate closely with Pacific neighbors in economic affairs and other matters of mutual interest.

To fulfil these objectives, the Development Plan recognize the potentially valuable role the private sector can play. According to the plan, "the private sector is to play an integral role in development, and all groups in a position to contribute actively to development will be encouraged to do so—planters, growers associations, processing units, manufacturers, tourism groups, trading companies, and voluntary bodies" (Government of the Cook Islands 1984:16) .

The Plan identified several major strategies for encouraging private sector development, including a pledge to work toward building a favorable climate for private sector investment, to strengthen the lending capacity of CIBD, to set up appropriate fiscal and related incentives, and to withdraw from certain activities that compete directly with the private sector. Above all, government was to restrain its own growth to allow more resources to flow into private sector areas.

Apart from supporting infrastructure, the plan spelled out several areas in the productive sector that were to be given priority. Among these were opportunities in agriculture—regeneration of the citrus industry and associated processing activities, coffee growing on the outer islands, and expansion of a variety of small crops. Particular attention was to be given to agricultural development on outer islands and to fisheries in the northern group. Tourism and its considerable potential were recognized, especially for Rarotonga and Aitutaki, along with a larger role for manufacturing and financial services.

The country's second development plan (for 1985—1988) is being prepared and is due to be published soon. The new plan is not expected to depart significantly from the national development objectives and strategies laid out in the first plan. The potential of the private sector for effecting further growth of the productive sector is again emphasized. Such a role takes on added significance because of government plans to reduce budgetary support from New Zealand and to renew its commitment to achieving greater economic independence.

Chapter 4. SUPPORT MEASURES FOR PRIVATE SECTOR DEVELOPMENT

As the previous chapter has shown, the crucial role that the private sector can play in developing the Cook Islands economy is recognized. In planning, major steps in a strategy for realizing this potential have been taken (both before and after the Cook Islands adopted formal planning approaches in the early 1980s) to promote the growth of the private sector, including small-scale indigenous enterprises. These steps range from providing basic infrastructure (water, power, roads, airstrips) to supporting productive ventures like the citrus scheme, clothing manufacture, tourism, and international banking.

Other government initiatives have also helped to set the tone for private sector development and to ensure a favorable socioeconomic climate for business investment. The establishment of a formal planning mechanism and the clarification of development objectives and strategies were themselves important steps. Other key initiatives include the establishment of the Cook Islands Development Bank as a source of development finance, legislation providing for a variety of investment incentives and related forms of assistance, and efforts to strengthen training. Also, the country's taxation system was drastically revised so as to produce an attractive fiscal regime for the business community. (For more details on government's role in the country's development and a review of major economic and political events that have helped to shape official attitudes to the private sector, see Annex A).

The purpose of this chapter is to outline and assess the principal support measures that government has introduced over time to encourage private sector growth. These measures are the investment incentives introduced through the Development Investment Act of 1977 and the Development Investment Code; the Monetary Board; training and advisory services; and the CIDB. The roles of the commercial bank and private consultants will also be touched upon. The discussion will provide the basis for recommendations to improve support facilities for the private sector.

Investment incentives

The most important legislation enacted to encourage and guide investment in the Cook Islands is the Development Investment Act of 1977 and the accompanying Investment Code.

The purposes of the Act are as follows:

1. to promote, foster, and assist the establishment of business activities and enterprises generally in the Cook Islands;
2. to facilitate the channeling of investment into those fields of business activities that will make the best use of resources consistent with national development and investment policies;
3. to regulate and control the direction, extent, and scope of foreign investment;

4. to facilitate the participation of local persons in investment and in the ownership, management, and control of foreign enterprises;
5. to identify activities and enterprises that will achieve these purposes.

The Investment Code informs potential investors (as well as others responsible for planning, promoting, or encouraging investment) of both the general criteria by which investments and enterprises will be evaluated for encouragement and the priorities attached by government to investment in particular activities or areas.

The code spells out guidelines for carrying out the general investment policy, including the encouragement of the creation of desirable new enterprises owned or controlled by Cook Islanders (Cook Islands Maori and permanent residents), the encouragement of existing small scale enterprises owned by Cook Islanders, and the maximum practicable use and expansion of facilities and services available from existing indigenous enterprises.

Specific enterprises and activities are listed in the Code as eligible for incentives and concessions according to the government's priority guidelines. These are as follows:

1. commercial, agricultural, livestock, and fishing operations or production;
2. preparation and processing of fruit, vegetable, livestock, and marine products;
3. exploitation and processing of other marine products;
4. other agro-based industries;
5. preparation and production of stock feed;
6. commercial manufacturing and processing of local handicrafts and artifacts;
7. the establishment of new or the expansion of existing tourist support facilities, especially high-class restaurants and night-clubs, fishing and cruise charters, and other specialty visitor facilities provided they have been approved by the Tourist Authority;
8. manufacturing, fabricating, and processing activities which are export-generating or import-substituting;
9. manufacture or assembly of materials or components for home building and construction (e.g., iron roofing, paneling).

The above investment areas are eligible for concessions and incentives whether the investors are foreign or local. Certain investment areas have been reserved for local investors (i.e., those with two-thirds or more local ownership and control). These reserve areas do not as a rule merit

concessions or incentives unless they fall within the categories listed above. Those that do not include bakeries, panel beating and body repair activities, trucking and cartage operations, cinema operations, small retail shops, motor garages, and filling stations.

The incentives and concessions that are available are as follows:

1. tariff protection;
2. concessions on import duties and levies on capital items and raw materials;
3. tax incentives including full or partial tax concession for up to 5 years, recruitment of skilled local persons domiciled overseas of 120 percent allowable expenditure, and costs of counterpart training up to 200 percent of the direct cost of training;
4. depreciation allowances on commercial, agricultural, livestock, and fishing projects and other approved projects;
5. residence permits free of charge for up to 3 years for key personnel of an approved enterprise; and
6. approval of leases for approved enterprises.

Applications for any of the concessions or incentives are made through the Monetary Board, established in 1981 under the Cook Islands Monetary Board Act to cater for the Development Investment Act of 1977 and the Investment Code as well as other monetary functions. The Board's major function is to appraise applications for incentives offered by the Investment Act for final approval by the cabinet. Until March 1986 the Board was made up of business people and representatives from the Treasury Department and CIIB, with the prime minister as minister for finance serving as chairman. The Board's present membership comprises all cabinet minister, including the secretary to the Monetary Board and to the cabinet, for a total of nine members.

Application forms are obtainable either directly from the office of the Monetary Board or from either of the two existing legal firms on Rarotonga. No application forms are available in any of the outer islands.

The secretary of the Monetary Board receives the completed application forms and submits them at the Board's next meeting. The Board currently attempts to meet on a Friday each month, subject to ministerial traveling. The Board's approvals of any applications are then submitted to the cabinet on the following Tuesday for endorsement.

Because the Board is composed of cabinet ministers, draft legislation has been prepared for a parliamentary sitting this year (1986) to amend the Development Investment Act so that cabinet endorsement will no longer be required.

The Monetary Board has tended to give preferential treatment to local enterprises and investors who apply for any of the concessions or

incentives. This tendency is illustrated in the Board's temporary policy of denying incentives for restaurant or nightclub activities unless they are fully owned by local persons. Once the application approvals have been endorsed by the cabinet, the secretary to the Monetary Board sends letters of advice to the applicants, who may then receive their concessions from the departments concerned.

The Development Investment Act of 1977 and the Investment Code are considered worthy steps by government to encourage the private sector. However, the Act's full potential has not yet been achieved, especially in the indigenous private sector.

The application forms are written in English without vernacular translation, thus possibly presenting problems of interpretation with small indigenous entrepreneurs. No forms are available in the outer islands; they must be obtained directly from the Monetary Board or from accountant and solicitor firms in Rarotonga by mail. Because the incentives are not publicized, it is unlikely that outer island entrepreneurs even know of their existence.

Incentives can be applied for under the Development Investment Act or under several other acts dealing with taxation, including the Income Tax Act of 1972, the Turnover Tax Act of 1980, and the Customs Act of 1980. Applications for incentives can be channeled through the ministries or bodies administering these acts, including the Monetary Board. Other sources have also been used for this purpose, for example, the member of parliament of one's constituency or one's consultant or solicitor.

The fact that incentives can be applied for and obtained from a variety of sources has presented problems for entrepreneurs. It has caused some confusion and skepticism, and complaints red tape have been common.

Such problems have, however, been reduced since the cabinet assumed control of the Monetary Board in 1986. The requirements of the Monetary Board Act still must be complied with (i.e., final approval by the cabinet in formal session), but because both bodies have the same composition, there is little if any deviation from the decision of the Monetary Board. This formality will continue until the Act is amended by the parliament.

The reasons for the cabinet dissolution and takeover of the Monetary Board are unclear; in interviews, the following were cited as the main reasons:

1. Points of view of the cabinet
 - . for expediency;
 - . complaints of confidential information leaking out to the public.

2. Point of view of the public

- . Some members of the previous board were being lobbied to conform to political points of view and pressured to make unfair decisions against the validity of the facts presented; pressure mounted and these members refused to conform.

Whatever the reason, it is too soon to tell what effects this change in board composition is having on the accessibility to and approval of incentives. From superficial analysis it appears that this change may have merit in rationalizing the channels for incentives access; that is, one defined body accepts applications rather than individual ministers, since they all have become members of the board. The political consciousness of ministers could lead to more leniency for indigenous applicants. On the other hand, the preconception toward foreign investment as a means to facilitate rapid economic growth may predispose these same politicians to favor foreign applicants. The full effects of this change in board composition are yet to be seen.

Department of Trade, Labour and Transport

The Department of Trade, Labour and Transport (TLT) assists the private sector by providing advice and information on request. Among other things, it can give trade information and assist in market surveys and in establishing contact with overseas partners. Its facilities have been used mainly by big companies and foreign investors. Support for indigenous businesses has been limited.

In 1984 an Industrial Committee was formed within TLT. This committee comprised 19 members, drawn from government (including several cabinet ministers) and the private sector. Its principal function was to make recommendations to the cabinet on development matters of interest to government. These matters related mainly to problems of production, marketing, and transportation, especially in the development of outer islands. The committee was able to submit a range of recommendations on these issues but had little direct impact because it was phased out by the end of the year.

In 1984, the Business Development Act was passed repealing the previous trading license acts. The new Act did not effect, however, until April 1986. It sets out new license fees to be charged for all existing and new companies in the country. (There are over 500 registered businesses in the country as of May 1986.) In all instances, the Act has the effect of increasing license fees, primarily to raise funds for promoting tourism in the Cook Islands. The Act was instigated as a direct result of a Chamber of Commerce drive to get the private sector to contribute to funding the promotion of tourism in the Cook Islands. Attempts to secure voluntary donations had met with some success, but they fell short when a few businesses failed to respond. It was therefore necessary for the Chamber to seek compulsory measures in the form of legislation.

Notification of the Act and its changes in license fees was given by the Minister of TLT in March 1986, and collection of fees commenced the following month. TLT is the collecting body for these fees.

The gap in servicing the needs of small indigenous entrepreneurs needs to be addressed. It is urged that TLT strengthen its capabilities in this area by establishing a specialized unit concerned exclusively with the promotion of small indigenous businesses. Such a unit should be empowered to carry out a variety of tasks, such as providing basic advice and information, assisting in the preparation of loan submissions to third parties, and identifying new business opportunities and related activities. Most important, it would serve as a central unit for coordinating the national effort in this area.

Cook Islands Development Bank

CIDB is constituted by and operates under the provisions of the Cook Islands Development Bank Act of 1978 as amended by the Cook Islands Development Bank Amendment Act of 1980. On 21 December 1984, a further amendment to section 41 of the Act was passed. It came into effect on 27 December 1984. It provides for approved deposits accepted by CIDB to be government-guaranteed and for the interest paid thereon to be free of all taxes in the Cook Islands.

Functions

The CIDB was formed by statute in 1978 to take over the operations of the former National Development Corporation (NDC). The bank was established with an authorized share capital of \$4 million owned by the government. To date \$3.27 million of this capital has been paid up. The CIDB is headed by a general manager responsible to a seven-man, ministerial appointed, board of directors appointed by the ministry. The initial function of the CIDB was to encourage the economic development of the Cook Islands by providing finance and advice to the agricultural, commercial, and industrial sectors.

The activities of the CIDB have expanded since it was established. In 1980 the CIDB took over the operations of the Housing Corporation of the Cook Islands (HCCI), thereby becoming responsible for providing finance for housing purposes. The Bank has also taken over the administration of an agricultural lending scheme, the so-called Seasonal Services Advances scheme (SSA), in so far as it relates to citrus redevelopment on Rarotonga.

The Cook Islands became a member of the Asian Development Bank (ADB) in 1976 and received technical assistance from that body in 1977 for the purpose of upgrading NDC. In 1982 the government obtained a US\$1.5 million line of credit for use by CIDB to finance lending activities. A second line of credit has recently been received.

The CIDB established a branch office in Aitutaki in 1984 and operates through agents in the outer islands. These agents are private persons, appointed on a part-time basis, whose main responsibilities are to explain loan procedures, take applications, control the use of loans, and submit reports to the head office. All the islands of the group are also serviced

directly from the head office in Rarotonga. Staff teams undertake regular visits to most islands of the southern group but are restricted in their visits to the northern group by poor transport services.

The general objective of the CIB is to promote the economic development of the Cook Islands by providing finance and advice for agricultural commercial, and industrial development and by promoting housing. Accordingly, it offers long-term loans for the purchase of fixed assets and short-term loans to meet working capital needs in agriculture, long-term loans for the purchase of fixed assets and equity ownership in commerce and industry, and long-term loans for the construction, extension, completion, or renovation of houses.

Lending

Loans totaling \$1,782,008 were approved during the 1984—85 year, representing an increase of \$688,245 or 62 percent over the 1983—84 figure of \$1,093,763 and \$240,539 above the previous record year, 1982—83 (figures based on CIB sources). Almost half the approvals were made in the final quarter of the year (January to March 1985), reflecting the turnaround in CIB's operations brought about by reorganization and stability in the board, management, and government. There were 292 approvals in 1984—85 against 176 in the 1983—84 year. Lending in the 1985—86 year continues at a high rate.

Of the \$1,782,008 in total loan approved in 1984—85, \$849,372 was given to the commercial/industrial sector. In the previous year \$424,990 of the \$1,093,763 total was given to that sector.

The CIB has a policy of keeping interest rates as low as possible consistent with rates charged by other lending organizations in the Cook Islands, the costs of borrowing money (especially from other than ADB), and the costs of operating the bank and meeting any bad debt write-offs.

Interest rates currently charged for commercial/industrial projects are 10 to 11 percent for projects in outer islands and 11 to 12 percent for projects in Rarotonga.

When a project is for expansion, is not truly development, or is sufficiently profitable, the board may approve a rate 1 percent higher than normal.

The penalty rate is 3 percent on top of the normal rates, to be applied (unless exempted by agreement) to arrears over 30 days for Rarotonga residents and over 60 days for outer island residents. As a

comparison, the interest rates charged or paid by a local bank (the then National Bank of New Zealand) are as follows:

Loans

Overdrafts	from 6.5% (government) to 13%
Overdrafts (personal)	6.5% to 13%
Commercial (overdrafts)	from 8.50% to 10.50%
Term loans	from 10.5% to 13%
Personal loans	flat rate of 7.25%

Term Deposits

30 days and under	3 months	4.0%
3 months and under	12 months	5.0%
12 months and under	24 months	5.5%
24 months and under	36 months	6.5%
Above 36 months		6.5%

The overriding criterion for financial assistance from CIDB is that a project be owned or controlled by a Cook Islander or by persons holding permanent residence status in the Cook Islands. This provision can be waived in cases where applications by qualified local persons are absent.

Certain other policy guidelines for lending purposes are as follows:

1. Promoters of a project are expected to make a reasonable personal contribution to the cost of projects financed by CIDB.
2. Assistance will not be available to a project unless CIDB is satisfied that the total financial and other resources necessary for successful implementation of the project will be available.
3. Adequate security is sought by CIDB for all loans and shall be properly documented before CIDB will disburse any loans approved. CIDB requires that all secured property be adequately insured.
4. CIDB normally expects project promoters to contribute their finance to the project prior to disbursement of CIDB assistance.
5. CIDB will consider equity participants only in a venture where an otherwise worthwhile project is inhibited by the lack of adequate share capital. CIDB does not seek to take a controlling interest in any enterprise and will not generally take more than a 25 percent interest in any venture.
6. CIDB policy on the sale of equity investments is that such investment be of a price which will yield a reasonable return to CIDB. Equity investments will, upon disposition, be first offered to other equity partners. Disposal of equity investment within 10 years of their acquisition is normally expected.

The government and the CIDB have loan agreements with ADB for a line of credit to fund CIDB lending. Although these funds have now been fully

committed, the country is bound by the contract until the loan is fully repaid in 30 years.

CIDB uses the ADB loan in the following lending ratios:

	<u>Percent</u>
Agriculture/fisheries	40
Industry	20
Commerce	20
Low-cost housing	20

CIDB borrows from ADB (through government) at 3 percent, from the local bank (for housing) at 8 percent, and in a limited way from deposits at 6 percent to 9-1/2 percent.

It is the CIDB's aim to keep its lending rates at least 1 percent below the commercial bank's lending rates in the various sectors.

CIDB's statistics state that it has given 100 percent financing for Cook Islanders (Cook Islands Maori and permanent residents) in each year of its operation.

With some aid funds likely to come, the possibility of renewed input from governments (last received in early 1983), and good prospects of slowly obtaining loan monies from other sources, CIDB should be able to continue lending of the amount achieved over 1984 and 1985, i.e., from \$1.5 million to \$2.0 million per year spread across all sectors. The bank is aiming to put approximately 40 percent of this to housing, 40 percent to commerce and industry, and 20 percent to agriculture, with other separately managed funds (e.g., SSA) also going into the agriculture sector.

The CIDB formally set up its Business Advisory Service Section in mid-1985. The section is still being developed; it is far from being able to provide the necessary high standard of business and accounting services the because it suffers from a shortage of qualified and experienced training personnel.

Commercial banks

The Cook Islands currently has only one commercial bank, the European Banking Corporation—a Brierley company—which recently bought out the National Bank of New Zealand. (As noted in the previous chapter, legislation for the establishment of a second bank was recently passed.) The National Bank had operated, in effect, as another branch of its overseas head office, and its functions covered the usual range of services in the deposit and lending fields. The bank, however, had maintained rigid loan requirements to be met by the applicant, including a 33 to 50 percent cash deposit toward a loan and presentation of salable assets for security purposes. Also required were past and projected financial statements prepared by a certified accountant.

Most indigenous entrepreneurs cannot afford such a large deposit and do not have the liquid assets to offer as security. In addition, the high cost of accountant fees itself deters them from obtaining the necessary financial statements.

Should all these conditions be met, however, the normal interest rates charged by the National Bank were based on a flat rate that in the long run can account for a considerable sum when compared with the interest rate on a reducing balance as offered the CIBD.

Precise data are not available, but it is apparent that the bulk of the National Bank's loans to the private sector were given to expatriates, both with permanent and nonresident status. The National Bank has shown very little interest in servicing the outer islands, confining its involvement to monthly visits by its officers to only two or three of the southern group islands.

The establishment of a second bank appears to be timely. It would provide healthy competition for the present bank and an alternative source of finance for the private sector, leading possibly to much-improved services to indigenous entrepreneurs in the outer islands.

Private consultancies

There are three main private consultancy companies for businesses in Rarotonga. They provide feasibility studies, market surveys, and business advice and prepare financial statements for their clients, mainly for bank or government (Inland Revenue) purposes.

Jagger-Smith is the largest commercial accounting firm in the country. The firm is fully computerized and provides financial statements in the form of computer spread sheets, which are fast and cost-efficient. The company does provide some business advice. Feasibility studies consist mainly of financial projections rather than detailed technical or marketing surveys. Few indigenous businesses can afford such services except when absolutely necessary (e.g., for annual tax returns and for applying for commercial bank loans). The high fees, sometimes over \$2,000 for a basic financial statement, can be crippling to a new venture.

Other firms have recently been established. Trends Ltd. opened in February 1985, and Peat-Marwick an international firm, opened a branch the same year. Before the inception of these companies, small businesses had little if any access to adequate accounting or business advice, relying on their own sometimes inadequate knowledge or paying free-lance, part-time village accountants who were often already overloaded with work of this nature. CIBD's Business Advisory Service is not yet fully operational and still lacks the necessary accounting expertise.

Trends is run by an expatriate permanent resident who has lived and worked in the Cook Islands for many years. His services include doing basic accounting on a regular basis for his clients as well as formulating appraisals for banks, applications for licenses from the Monetary Board and the Tourist Authority, and applications for incentives. In addition, Trends does independent market analyses and aids overseas concerns wishing

to invest in the Cook Islands. However, primary concern is for indigenous entrepreneurs and businesses.

The appraisals and market analyses done by Trends are highly regarded by the Development Bank because they are detailed and thorough yet objective.

The remaining consultant company—Peat-Marwick—operates like Jagger-Smith in that its primary service is accounting. Because the operation is staffed predominantly with newly arrived expatriates, and local trainees, the appraisal work attempted consists mainly of financial statements and projects with little local applicability.

The three main consultancies provide a degree of competition that is healthy for the business community. With the growing numbers of small businesses requiring technical advice and assistance at an affordable price, there is scope for more private consultancies. Low-cost operations, such as Trends, catering to small businessmen, seem particularly worth encouraging, as does CIB's small-business advisory role.

Training

Access to relevant training is of major importance in achieving business success and managing business problems. Such training is available through both formal and informal channels. Formal training through the school system has a role to play in teaching commercial and accounting courses. Perhaps more important are nonschool training programs that are more specific and practical in orientation, including the teaching of basic techniques (for example, simple accounting, record keeping, pricing, stock control, financial control) and such skills as retailing and marketing. Many of these can be taught effectively by nonformal bodies, including NGOs.

The Cook Islands does not have a well-developed educational structure compared with, say, Fiji and hence is not able to support indigenous entrepreneurs to any great degree. However, the following institutions offer some limited programs:

- The University of the South Pacific Centre in Rarotonga, through its School of Social and Economic Development (SSED) in Suva, offers certificate and diploma courses in accounting and administration by extension. Other vocational courses offer majors in accounting, economics, or administration. Formal degree programs may be commenced through extension but must be substantially completed at the campus in Suva.
- The Ministry of Education administers an Apprenticeship Scheme, which was established in late 1978 and is similar to the New Zealand Scheme. Only seven trades are recognized, including auto engineering, carpentry, cabinetmaking, hairdressing, boilermaking, and the like. The apprenticeship requires 9,000 hours, or about 4-1/2 years, to gain a New Zealand Trade Certificate. The Ministry in February 1986 introduced an International Labor Organization

(ILO) scheme geared toward regular practical training for electrical, carpentry, and mechanical trades.

- . The Manpower Training Unit of the Public Service and TLT runs irregular and infrequent entrepreneur development courses for the private sector with emphasis on accounting and management skills for small businesses. However, most courses in administration are geared to civil servants.
- . CIBD organizes, usually once or twice a year, a course for small businesses geared mainly to its clients but open to all interested business people and potential entrepreneurs. The courses emphasize basic accounting skills and management techniques.

The present training arrangements are unsatisfactory from several points of view.

Training opportunities for small-business people are limited; the few that exist are irregular and infrequent. The majority of courses available are designed by foreigners. They are sometimes inappropriate to the environment or the experience and business plans of the participants. The materials are in English, translated by the trainers when possible.

At times, the courses offered, especially in basic accounting, by the different institutions (USP extension, CIBD, and TLT) are marked by conflicting advice, inappropriate techniques and materials, and duplication of resources. CIBD and TLT in particular are also constrained by limited funding and staff resources.

It becomes obvious in light of these problems that there is little cost-effective coordination of advisory or training programs offered throughout the Cook Islands. The outer islands are particularly disadvantaged.

For the courses to be of value, they must be presented in the vernacular, use examples and materials appropriate to the Cook Islands, and be designed around the participants' experience and plans. Furthermore, they must be geared to particular trades. The place and function of training programs be defined and coordinated to make the best use of the resources available, and the programs should be thoroughly evaluated for their effectiveness in meeting the needs of Cook Islanders in business.

Concluding comments

Support measures for private sector development are relatively advanced in some areas, particularly in financial incentives for business investment, both local and foreign, but there is still room for improving the administration of these incentives. The CIBD is in place with its mandate to encourage the expansion of the business sector by providing development finance and technical assistance; it too can be argued that it can do more to discharge its role in the small-business advisory area.

It is also clear that there are some major weaknesses in supporting institutions. Commercial banking services need strengthening to play a

more active part in business development. Other government agencies, such as TLT, the Department of Development Planning, and the Manpower Training Unit of the public service, are also capable of making a larger contribution. Above all, it is important to strengthen training facilities and to improve coordination among existing programs to ensure that the vital need for training in basic business skills is met.

Chapter 5. INDIGENOUS BUSINESSES: RAROTONGA

Island profile

Rarotonga, situated between 21° and 21°18' south latitude and 159°44' and 160° west longitude, is the largest of the Cook Islands. It has a total land area of 67 km²; 22 km² are foothill land suitable for agriculture (Department of Agriculture). Rarotonga is the administrative and commercial center of the Cook Islands. Its population of 9,530 in the 1981 census (ESCAP/SPC 1983:2), makes it the most populated island in the group. The main sea, air, and telecommunication facilities linking the Cook Islands with the outside world are based in Rarotonga.

Rarotonga was traditionally an agrarian society, and it was agricultural products that spurred the development of trade and commerce. Agriculture, small-scale industry, and tourism now form the basis of Rarotonga's productive economy. Fruits, vegetables, and copra are the main agricultural export crops. In manufacturing, clothing, citrus processing, handicrafts, and carvings are export oriented; smaller industries, such as baking and soft-drink manufacturing, are confined to local markets. Rarotonga, with its international airport, is also the center of the Cook Islands' tourist industry, which sustains a wide range of enterprises, including hotels and motels transportation, handicrafts, and restaurants.

Employment and production in the monetary economy of Rarotonga are dominated by the service industries encompassing electricity and water supply, trade and tourism facilities, transport and communications, finance, and community services. Within the overall service sector—as in the economy as a whole—the government sector is paramount. It is estimated that in 1981 (the latest census year) a total of 1,651, or 55 percent of those employed in Rarotonga, were engaged in the "nonprivate sector," that is, in government administration (ESCAP/SPC 1983:193). Thus, roughly 45 percent of the listed active workforce were employed in the private sector. However, this figure includes employees of public agencies not directly connected with the Cook Islands administration, for example, representatives of the New Zealand government. The private sector is therefore even smaller than the census findings suggested. (On the other hand, as will be noted later, many public servants also engage in profit-making ventures in the private sector.)

The Cook Islands' private sector, concentrated in Rarotonga, experienced stagnation during the 1970s, principally because of a decline in population and workforce caused by heavy emigration coupled with a failure to contain public sector activity. However, there has recently been an impressive resurgence of the private sector, spearheaded by tourism, clothing manufacturing, pearl shell production, and commercial cash cropping for export. Underlying this trend was a variety of measures introduced by government specifically to stimulate private sector investment.

Given the advantages of size and resource endowment, Rarotonga will inevitably play a dominant role in determining the future pattern of economic development. The country's first development plan, published in

1984, laid out several priority development goals, including efforts to raise the level of prosperity of the people of the Cook Islands and to attain a larger measure of economic independence. The plan recognized that even in the face of a pledge to accentuate outer island development, Rarotonga remains the island where most of the activities will be concentrated during the plan period (1982—1985). The development effort during this period waste focus on agricultural development (citrus and fresh fruits and vegetables for export), fisheries, tourism, offshore banking, and small-scale manufacturing.

The sample enterprises

The survey team was able to cover 28 sample enterprises during the time allocated for the survey on Rarotonga. Selection was based on the need to establish a representative sample of businesses by type and size. Table 5.1 shows the survey sample classified by broad industry group.

Table 5.1 Rarotonga survey sample by industry

Type of industry	Number in sample	%
Motel/hotel (accommodation)	2	7
Manufacturing	2	7
Crafts and clothing	3	11
Restaurant/bar	2	7
Transport	4	14
Technical/professional services	5	18
Construction	2	7
Retail shops	5	18
Agriculture	3	11
Total	28	100

Note: Manufacturing comprises soft drinks and clothing; transport mainly taxi service and tour companies; technical/professional services such activities as secretarial services, panel beaters, welding/steelwork, and motor repair; agriculture refers mainly to commercial farming for export.

Interviews were conducted with the sole owner or with one of the owners or partners depending on the ownership structure. In family partnerships, interviews were often conducted with both husband and wife present. Ethnically, all those interviewed were Maori (8 cases) or mixed Maori-European (17 cases), except in 3 cases where a European, a Fijian, and a New Zealand Maori partner were involved. However, the last three were all local residents operating small enterprises; two had married Cook Islanders.

Classified by form of business organization, the sample comprised 18 companies limited by shares, mainly proprietary limited companies;

8 partnerships; and 2 sole traders. (This pattern was not predetermined but emerged after several adjustments were made to the initial sample group.)

With a few exceptions, the ownership structure of the ventures was made up of the entrepreneur and his family or close relatives. In companies limited by shares, the shareholders comprised the husband and wife, mature children, and/or the husband's close relatives. In partnerships, husband and wife were always the partners; in sole traders, the husband was the owner in most cases.

Most of the enterprises were located in the main urban centers, which encompass Avarua, the main port and town area, and adjacent villages. Those that were rural-based included two motels.

That almost all the sample enterprises are small can be seen from an examination of gross revenue. This totaled \$2.8 million annually for the 28 enterprises at the time of the survey, giving an average of \$100,000. Only two companies exceeded \$300,000; two others reported gross revenue of over \$200,000. Of the remaining enterprises, gross revenue was mostly below \$50,000, with several between \$300 and \$5,000.

The majority of the sample businesses serve the local market of Rarotonga. Those serving both Rarotonga and outside destinations, including some of the outer islands, include commercial farmers and manufacturers of clothing, crafts and carvings, and softdrinks. The main market was New Zealand, and the only notable product shipped to the outer islands was softdrinks.

Other business characteristics

As Table 5.2 shows, a majority of enterprises had been in operation for a period of between 1 and 10 years. However, the data were compiled on the basis of current ownership and, in fact, many have had a much longer life under different owners. Among enterprises that have operated for more than 10 years are several that had been established by a parent and handed down to the present generation.

Table 5.2 Ages of current businesses

Less than 1 year	2	
1—5 years	10	
6—10	years	8
11—15 years	3	
16—20 years	1	
20 years or more	4	

Almost all the sample enterprises—23 in fact—had been established by the present owners themselves. The others had been acquired through inheritance from a father or father-in-law 3 cases or had been purchased

(2). Considered alongside Table 5.2, this information suggests an acceleration in the development of entrepreneurship in the Cook Islands in recent years. (See ESCAP/SPC 1983:179 for further observations on this apparent trend.)

The amounts initially invested to set up or acquire the businesses varied widely, but the data revealed that in the majority of cases very small amounts were involved. Several of the older businesses were set up with only a few hundred dollars in capital or in the case of more recent enterprises, with no more than \$5,000 to \$6,000. Only four businesses invested \$15,000 to \$30,000; while four others invested \$30,000 or more. Of the latter, the largest outlay totaled \$140,000, with \$40,000 coming from the owner himself and the remainder from a local lawyer (\$20,000) and an overseas investor (\$80,000).

As Table 5.3 shows, most of the businesses were established without reliance on outside funds. Loans from the local commercial bank represented the most widely used outside source, but the amounts so obtained have been modest, varying from \$500 to \$21,000 and averaging \$10,000. Loans from the CIDB have been few—relating in some degrees to the relative youth of this institution—and again, small amounts were involved, with the largest loan totaling \$24,000. The negligible use of nonbank institutional sources was noteworthy.

Table 5.3 Sources of finance for establishment/purchase of businesses

Owner's/manager's savings	17
O/S + CBL	7
O/S + CIDBL	2
O/S + CBL + CIDBL	1
O/S + other loans	1
Total	28
O/S = Owner's savings CBL = Commercial bank loan CIDBL = Cook Islands Development Bank loan	

The heavy reliance on the owner's savings for starting up a business can be explained in part by deficiencies in the local capital market (i.e., its narrow base) and in part by a failure to secure funds from existing bank facilities. Reticence on the part of some to approach existing financial institutions also certainly played a part. Whatever the reasons, a consequence is that the entrepreneur had less funds for investment in establishing the business than he may have preferred. Such an initial disability can prove a serious handicap, giving rise to inferior physical facilities, low stock levels, overreliance on trade credits, and general undercapitalization. These problems are likely to persist so long as access to outside sources of capital funds continues to be poor.

A major characteristic of the sample businesses was extensive participation in other forms of economic activities. At least 22 enterprises were involved in this way, including subsistence farming (usually combined with commercial farming) and government employment. There were three cases of husbands working as public servants.

Table 5.4 shows that participation in subsistence and commercial farming was most common. The number engaged in trade stores was also noteworthy. There were several instances of participation in two secondary activities and, in one case, as many as three. The latter was a restaurant owner who was running a trade store and a commercial farm while being employed in government.

Table 5.4 Nature of other business connections

Subsistence and commercial farming	15
Retail shops	4
Motel/hotel	2
Transport	2
Entertainment	2
Others	5

An involvement in several business undertakings is apparently not unique to Rarotonga. Croulet and Sio (1985:36) found a similar pattern among Western Samoan businessmen, as has Finney (1987) in the Goroka Highlands region of Papua New Guinea. Croulet and Sio suggest that the benefits of being engaged in a number of diverse activities include mutual support between different ventures, such as the sharing of trucks, building, and other assets. (For further comments on this phenomenon, see Chapter 8.)

That the Rarotonga businesses surveyed were essentially family units was commented upon earlier. This aspect was also apparent on the employment side. Eleven of the sample businesses employed no paid labor but relied solely on the family; 10 employed paid labor totaling between one and three per enterprise; and 5 reported employing between four and seven. Only 2 enterprises employed eight or more paid workers.

The survey revealed that the Rarotonga entrepreneurs are conscientious in keeping business records. In this respect they seem to be more advanced than small-business owners in other parts of the South Pacific; for example, Western Samoa (see Croulet and Sio 1985:59). The level of education, wide overseas experience, and the need to meet the requirement of the turnover tax paid every month may be the reasons for the close attention to keeping business records. Many Rarotonga entrepreneurs use the services of private accountants both for keeping business records and for obtaining advice on business operations.

Entrepreneurs

The notion of entrepreneurship—its meaning and role in economic growth—was the subject of Chapter 2. It was shown that entrepreneurs have been commonly perceived as those who carry out a number of functions, both managerial and innovational, essential to establishing and running a business. While acknowledging the elusive nature of this concept, the present study takes a simplified approach. It is assumed here that an entrepreneur is one who operates and manages a business, whether or not he played a part in founding that business. He is, in effect, a businessman, as popularly conceived, who is responsible for both routine managerial functions and major initiatives. Though an oversimplification, such an approach is convenient and not altogether unrealistic in the circumstances of the Pacific islands.

The survey confirmed that the ownership and operation of businesses in Rarotonga is far from being a male preserve. In fact, women play a significant as borne out by the fact that 9 of the 28 entrepreneurs interviewed were women. They were most prominent in the services: retail stores, restaurants, handicrafts, and motels.

The ages of the entrepreneurs interviewed range from 28 to 72 years. Specifically, 11 entrepreneurs were in the age group of 28—40 years, 14 in the 41—60 age group, and the remaining 3 in the 61—72 age group. All the entrepreneurs were married; some had large families. The data revealed that 5 entrepreneurs have families of two to four people, 16 have five to seven, and the remaining 7 have eight to ten people.

Most of the entrepreneurs were active in church organizations, and some held executive positions in church administration while others served as deacons. Several were also active in community and business organizations such as sports clubs, the chamber of commerce, and tourist and education boards.

The educational level of the entrepreneurs was found to be relatively high, apparently well above the national level (ESCAP/SPC 1983:60). Nine had attended university, mostly in New Zealand, though not all had completed a degree. Five reported technical college and nine reported secondary school as their highest educational level. Those whose education ended in elementary school numbered only five.

Eight of the entrepreneurs had had some form of vocational training, including teacher training and business training. Several others reported that they have benefited directly from training by their fathers particularly in commercial agriculture.

Table 5.5 sums up the survey findings on previous work experience. The table confirms a fairly close correlation between previous work experience and present involvement in business, particularly for those who had had vocational skills training (e.g., welding, joinery, motor mechanics, those who had had agricultural training at tertiary level, and those who had received training from their fathers). However, among those (36 percent of cases) whose previous work experience had been undertaken in areas unrelated to their present business interests, several indicated that such

experience had not been totally useless: it had contributed in some degree to building up general skills that had been applied to the running of a business.

Table 5.5 Previous work experience

	<u>3</u>
Same as present business	50
Similar to present business	14
Different from present business	36

Overseas exposure was extensive. With only one exception, all entrepreneurs had lived and worked overseas or had studied at universities or technical institutions in New Zealand, Australia, Fiji, Western Samoa, and one or two other Pacific island locations. Twenty-four entrepreneurs reported work experience in New Zealand alone.

Major areas of experience included commercial farming and government employment, either as public servants or as teachers. As reported earlier, the continuing involvement in agriculture as a secondary activity is notable. However, the relatively few respondents (three) who reported farming as part of their previous experience is significant, particularly when considered in light of the evidence on the occupation of the entrepreneur's father. This showed a heavy agricultural bias; at least ten fathers were reported to have been "growers."

The reasons the sample entrepreneurs gave for entering business are presented in Table 5.6. The data incorporate cases where more than one reason was given, each of which was tabulated separately. The interpretation of the results should be made with caution. A problem arises from possible interconnections between the individual reasons cited by respondents. For example, the desire to earn more money may well underlie the wish to achieve financial independence or to be "one's own boss."

Table 5.6 Reasons for going into business

To earn more money/to attain a better standard of living	13
To support family/employment for family members	9
To be independent/one's own boss	6
To continue family traditions	2
To achieve ambition/interest	7
To take advantage of long-term projects	2
Other	8

From Table 5.6 it appears that the entrepreneurs were clearly in business to make money, to improve living conditions, and to look after the economic interests of the family. Of secondary importance were "the wish to be one's own boss" and personal interests and ambitions. The emphasis on family is of more than passing interest in that it is not normally a significant motive in the business life of more developed economies such as Australia's (see, for example, Johns, Dunlop, and Sheedan 1983:29).

A variety of reasons are included in the "other" category of Table 6.4. Among the more interesting were dissatisfaction with public service pay, efforts to provide competition against a local monopoly, and an attempt to try something different. Professional pride was also evident: a grower responded that he was in business "to set an example for other growers."

Financial aspects

An attempt was made to gain an idea of the financial side of the surveyed businesses from the financial business reports and documents where these were available or from estimates provided by respondents. The results, summed up in Tables 5.7 and 5.8, are subject to many shortcomings and are to be interpreted with care. We will focus on changes in fixed assets, profitability, levels of trade debts, financial reserves, and reinvestment aspects.

1. Fixed assets

Financial data obtained from the enterprises allowed rough estimates to be made of changes in the value of fixed assets over time. The results, shown in Table 5.7, are based on a simple procedure whereby the initial investment in fixed assets at the start of the business was deducted from the value of total assets at the end of 1984. The crudeness of this procedure is apparent; for example, it does not allow for inflation or for differences in the age structure of the business groups. It also does not take into account assets bought and retired before 1984. However, the data give a fairly impressive picture of an ability to build up operational capacity over time, particularly in retailing, hotel accommodation, transport, and construction.

Table 5.7 Revenue, profit, and increase in fixed asset investment

Group	Average revenue level per year \$	Average profit level per year \$	Increase in total investment in fixed assets 1984 \$
Retailing (10)	150,400	33,500	308,800
Manufacturing (2)	252,000	34,000	36,300
Accommodation (2)	24,400	8,200	231,000
Transport (4)	39,800	8,400	214,000
(continued)			

Table 5.7 (continued)

Group	Average revenue level per year \$	Average profit level per year \$	Increase in total investment in fixed assets 1984 \$
Services (5)	56,700	8,000	85,200
Agriculture (3)	43,000	7,800	39,120
Construction (2)	135,000	12,200	202,000
Total (28)			

2. Profit, working capital, and reserves

Table 5.7 shows estimated average annual revenues and profits recorded by the sample enterprises. Profit figures apply to pretax profits.

It is apparent that many enterprises were doing well in realizing profit margins from revenues. Average profit margins for retailing and hotel/motel accommodation, at well above 20 percent, are impressive. However, the overall performance was highly variable. Two businesses suffered losses, and many reported very low profit margins.

Profit levels are equally varied. For the smallest enterprises, realized profit was typically from a few hundred dollars up to \$6,000. At least ten enterprises reported profits of over \$20,000 the highest was \$80,000. The latter was one of the better-run village trade stores.

On the capacity to maintain appropriate levels of working capital, the situation was not so promising. The survey revealed that a shortage of working capital was common and that it was affecting business efficiency. Given low levels of trade debts (see below) and the availability of basic credit facilities, this suggests weaknesses in cash management among the entrepreneurs. Sources of weakness are not clear, but heavy withdrawal of funds for personal and communal purposes and overinvestment in fixed assets may be important. (Management training needs are discussed in the next section.)

Just over half of the enterprises responded positively to the question of whether they keep business reserves. These reserves were shown to be mostly small amounts, varying from \$400 to \$6,000. Only two businesses had reserves in excess of \$10,000.

3. Trade debts and credits

Information obtained on trade debts, summarized in Table 5.8, Sections A and B, showed that the entrepreneurs have managed to keep trade debts within limits. A large proportion of the respondents (43 percent) reported having no current trade debts, while the evidence suggests that those who

did have them succeeded in keeping them at low levels—typically from \$100 to \$5,000. The highest debt levels were reported by the manufacturing and construction enterprises the size and nature of whose operations normally give rise to large trade debts.

Table 5.8 Trade debts and credits

A. Monthly trade debts	
No trade debts	8
\$100—\$5,000 trade debts	43
Over \$5,000 trade debts	46
	11
B. Accumulated bad debts	
No bad debts	72
\$100—\$2,000 bad debts	21
\$2,001—\$4,000 bad debts	7
C. Monthly trade creditors	
Cash basis only	29
\$1,000—\$5,000 trade credits	18
\$5,001—\$10,000 trade credits	29
\$10,001—\$15,000 trade credits	7
\$15,001—\$25,000 trade credits	14
Over \$25,000 trade credits	3

A high proportion (72 percent) reported the absence of accumulated bad debts. For those who reported losses through bad debts, the collected data confirmed that the amounts were reasonably small.

From interviews it appears that entrepreneurs were aware of the dangers of an overextension of trade debts and have either disallowed them or put a ceiling at permissible levels. Some have weeded out unreliable customers over time and allow credit only to close friends and relatives.

Obtaining trade credit from suppliers was widespread as shown by Table 5.8, Section C. This suggests that many of the enterprises have succeeded in building up their credibility with established suppliers. Most of those purchasing on a cash basis were among the smallest units in the sample.

4. Business expansion

The use of surpluses or profits for reinvesting in the business or, in some cases starting a new line of activity was very common. All but three of the entrepreneurs intended to use part of their realized surpluses to expand the business, mainly by acquiring new equipment or by enlarging the premises. Of those not intending to reinvest, one was concentrating on

loan repayment and another on "supporting the family." The remaining entrepreneur did not have a clear view of what was to be done.

The responses shed light on other uses of surpluses. Many enterprises were using part of the funds to carry out a variety of objectives, including to repay loans, to add to reserves, to "support the family," and to reward "directors." "Drawings" by the owners were also made against these surpluses.

Twenty-four enterprises had fairly clear ideas of what they intended to do to expand the present business or to start new lines of activity. In the responses, "business expansion" was taken to refer not only to purchasing equipment and enlarging premises but also to the erecting new buildings, adding new units to a hotel or motel, purchasing of a new vehicle, or recruiting specialist staff. One entrepreneur intended to use the surpluses to fund expansion in two other ventures run as part of the overall family business. Especially for tourism, transport, and trade stores, a major incentive for expansion was said to be the opportunity to benefit from expected boom conditions associated with the Pacific minigames to be held.

Entry into new lines of business was contemplated by five enterprises. Three of these were trade stores, each with a separate interest in establishing a restaurant, home units, and a metals business. An automobile painting company was interested in entering manufacturing, and a tourist unit expressed interest in setting up a transport venture.

Business problems

Compared with entrepreneurs on the outer islands, entrepreneurs in Rarotonga enjoy many advantages. They can service a larger population, take advantage of more business opportunities, benefit from a more developed social and economic infrastructure, enjoy ease of access to banks and other sources of capital, and gain direct access to national administrative, transport, and communications facilities. However, these advantages do not ensure that Rarotonga entrepreneurs are immune to a variety of problems that could seriously affect the efficient operation of their businesses. Many problems are certainly present (as will be seen below), generally of the same kinds as those that afflict entrepreneurs in the outer islands, though not necessarily in the same degree of severity.

The survey attempted to identify and ascertain the seriousness of the problems faced by businesses. These problems related to such areas as the availability of capital funds, marketing, transportation, competition in the domestic market, government support, and several other related areas. The information derived from the survey is outlined below, roughly in order of how serious the problems were perceived to be by the businessmen themselves.

Transportation

Nineteen of the sample enterprises indicated that they experienced transportation problems. A large proportion of these were operating in the commercial agriculture, tourism, and trade sectors.

The most frequently cited problem was shipping. It affected all enterprises, which reported dissatisfaction with the unreliability and infrequency of shipping services and the inadequacy of cargo space. Problems over damaged goods were reported in one instance. A recurring complaint was the unsatisfactory service from New Zealand—the Cook Islands' main source of imports. Cargo space was limited, partly because the service also carried cargo for unloading in Tahiti. The call into Tahiti also caused delays. Such shipping problems affected business operations in a variety of ways; they caused periodic shortages of vital supplies and spare parts, requiring that the businesses carry above-normal stocks. And they raised the costs of operation.

Eight enterprises referred to problems with air transportation. The need for more frequent flights was emphasized by at least four enterprises, including commercial growers and a tourist operator. Several with an export interest referred to the high cost of air freighting, and a commercial grower expressed annoyance at the occasional forced offloading of produce to accommodate outgoing passengers.

Since the survey, an air transport link with Sydney, Australia, has been inaugurated by a joint venture between government and an Australian company (Ansett). The service to New Zealand has also improved somewhat.

As for domestic transportation, the need to improve the local bus service, especially for the benefit of tourists, was cited on several occasions.

Market factors

Problems connected with the market affected 11 enterprises. These problems had to do with such factors as local market conditions, marketing arrangements, competition from imported goods, and specific export facilities.

Five enterprises responded that they faced a "weak local market." These were mainly the small domestic market-oriented businesses such as taxis, stores, breadmaking, and, in some degree, handicraft stores. In the case of two local producers (breadmaking and vegetable growing), it was felt that local demand was being undermined by imported substitutes.

Five enterprises, including two commercial farmers and a tourist operator, reported that they were being disadvantaged by weak or poor marketing institutions. The farmers stated that the export of local produce could be increased if research were done to identify overseas markets, and that their operations were being detrimentally affected by poor postharvest facilities, especially for storage purposes. The tourist operator felt that the Tourist Board, which is responsible for the promotion of tourism, favored the big companies.

One enterprise complained about the high prices being charged by the larger companies which the small traders were forced to pay at the wholesale level. Another referred to problems due to a failure "to recognize the size of the local market."

Responses were sought from the sample enterprises on problems arising from competition in the domestic market. Twelve enterprises responded. Four felt that competition was either "under control" or "was healthy" for the economy. Another reported the absence of competition because he was operating as a monopoly. Areas where competition was considered a real threat were transport (buses and taxis), motor repair and panel beating. It was said that there were too many operators relative to the amount of business available.

Inadequate government support

Eighteen entrepreneurs agreed that government was not giving adequate support to their businesses. A wide variety of reasons were cited, both general and specific.

At least eight enterprises responded in general terms. It was said that government policies were "wrong" or "nonexistent," that they did not provide incentives to the private sector, and that there was too much "bureaucracy."

However, most of the criticisms were more specific. Several enterprises thought that the levy on imported vehicles and other major imported items and components was too high, that the price for electricity was excessive, and that the tax system was too complex—all combining to raise the cost of doing business. Three other points related to the poor service being rendered by the CIDB: the failure of government to control competitive imports (e.g., bread), poor marketing organizations, and lack of adequate training facilities including those to promote servicing skills in the tourism sector.

Ten enterprises did not find government support to be inadequate; several suggested areas where some government intervention was warranted. These possibilities will be covered in the final part of this chapter.

Capital shortage

The survey attempted to establish the extent to which entrepreneurs were experiencing problems of capital shortage and to see how additional funds would have been used had they been available.

A total of 19 enterprises responded that capital shortage was a problem. With many contemplating expansion through upgrading existing facilities or entering new lines of activity, as reported earlier, it is not surprising that the main reason given for the need for additional investment funds was to carry out the expansion of the enterprise. At least five entrepreneurs cited this as a reason why additional funds were needed. In several instances, the main motive was to build up working capital or to increase stocks.

Several respondents reported dissatisfaction with the services being provided by the CIDB and the private bank. It was claimed, for one thing, that these institutions were "too restrictive" in their loan policies.

Lack of skilled workers

The merit of teaching basic management skills for the success of a business venture was emphasized in Chapter 4. As was pointed out, both formal and nonformal programs have a role to play. Furthermore, the particular disadvantage faced by entrepreneurs in the outer islands was noted.

The lack of skilled personnel and related problems was considered serious by 11 enterprises. Six of these relate to deficiencies in basic skills or levels of experience and training. One cited the loss of workers through emigration as a cause for the shortage of skilled workers. One tourist enterprise referred to the lack of carvers and the effect it was having on the supply and quality of handicrafts.

The survey revealed other problems of interest in this area. Several cited the unpredictability of their workers and the lack of motivation. One referred to the difficulty of getting more workers.

It was clear from the responses that many entrepreneurs attempted to overcome the shortage of trained workers by conducting on-the-job training, but the need for government to strengthen its effort in this area was widely acknowledged.

Banking services

Eleven enterprises commented unfavorably on the existing banking system, which at the time was monopolized by a single company. Several entrepreneurs drew attention to restrictive bank lending policies, to the neglect of small business, and to the high rates of interest being charged for bank loans. At least three businesses complained about high lending rates and their inhibiting effects on their business operations and plans to expand. There was wide agreement on the need to review current bank policies; at least six enterprises thought it might be time to establish another bank.

Since the survey, the government has, in fact, addressed the matter of whether or not a new bank should be established and, as noted earlier, legislation has been passed setting up a new bank.

Social-cultural pressures

Certain elements of the traditional culture can undermine the efficient running of a business if allowed to get out of hand. A common manifestation of this is an overextension of credit to relatives and fellow villagers, and there can be no doubt that neglect here has been a major cause of business failures. There is evidence suggesting that a necessary condition for business success in many parts of the region is an ability to contain those aspects of culture that can debilitate business (Croulet and Sio 1985:95).

The survey suggests that sociocultural pressures did not significantly undermine the operation of the sample businesses. Only seven entrepreneurs responded that they were exposed to such pressures, mainly in the form of

"community business" and "family obligations." None of them considered these pressures to be a serious impediment, and the earlier findings relating to levels of trade debt support this response.

The role of government

Not all the business problems fall within the purview of government for their solution. Many—for example, those connected with transportation—are dictated largely by outside forces and there are limits to how much the Cook Islands government can influence events. Other problems are properly the responsibility of government and can be corrected by appropriate policy measures as; for example, the training and credit areas. Others are amenable to remedial action by the enterprises themselves, and the survey revealed cases where this happened in training new workers and controlling trade credit. One has also to admit that some entrepreneurs brought up many problems that are essentially petty, amounting to no more than an airing of a grievance over some government policy or action. Closely related are matters that were cited as "problems" appear to be based on an unclear understanding of the facts. Examples are views on interest rate levels on loans, which are often cited without reference to the real rate of interest or to interest rates paid on deposits.

Despite these complications, an attempt was made to obtain views on what government can do to overcome some of the problems identified by the entrepreneurs. The respondents were most forthcoming on this issue, and many of their views have been noted. To repeat, various opinions were expressed on the need for remedial government action in shipping and air transport; in marketing, including the strengthening of basic institutions and postharvest storage facilities; in banking and in the promotion of less restrictive credit policies and the possibility of establishing a bank; in training to build up a reservoir of basic skills at all levels; and in policies regarding the cost of electricity, the tax system, and the protection of local industries from imported substitutes.

Other responses not already highlighted referred mainly to selected areas capable of improving the local business environment. Proposals advanced by the sample enterprises included the need for an advisory service to provide technical and management advice to small businesses and the need to avoid government involvement in areas that compete directly with the private sector. They also included suggestions on possible ways of improving administrative performance; for example, in administering the turnover tax and in enforcing business licensing and inspection procedures. Finally, several entrepreneurs voiced the need for government to try to gain a better understanding of the business and private sector in general and to improve channels of communication. In the view of one entrepreneur, success in these areas calls for government "to listen more to the views of the business community."

Chapter 6. OUTER ISLANDS BUSINESS: AITUTAKI

This chapter examines aspects of indigenous business development on Aitutaki. It will be followed—in the next chapter—by a similar study of Atiu, another outer island. Each of these studies is based on information collected during a short visit (no more than one week) to each of these islands, using the same questionnaire and interview approach that were used in Rarotonga. The sample enterprises totaled nine in Aitutaki and seven in Atiu.

The analysis attempts to highlight the main features of doing business on outer islands characterized by smallness (both physically and demographically) and suffering from relative isolation and remoteness. (However, proximity to Rarotonga means that both Atiu and Aitutaki are less handicapped by remoteness than, say, the islands of the northern group.) Particular attention will be given to the problems faced by business and how these might differ, both in kind and in degree, from those encountered in Rarotonga.

Background

Aitutaki is about 259 km north of Rarotonga and has a total land area of just over 18 km². It is the most populous island in the Cook Islands after Rarotonga, with a population of 2,335 at the 1981 census (Government of Cook Islands 1981), a decline of 4 percent from 1976.

Aitutaki is part volcanic island and part coral atoll. Its lagoon is considered one of the most beautiful in the South Pacific.

A banana industry was established in the 1960s and, despite many setbacks bananas remain a leading export. Other major activities are copra growing and artisanal fishing, largely for subsistence; tourism has made much headway recently. The natural beauty of Aitutaki coupled with its relative proximity to Rarotonga gives it considerable potential for further tourism expansion.

Major development activities, as foreseen in the Development Plan 1982—85 (Government of the Cook Islands 1984:223) are in agriculture (specifically banana production), marine resources (trochus, green snails, and fishing with aggregation devices), and physical infrastructure to support tourism development.

Detailed information on the structure of business in Aitutaki is not available. However, it is apparent that banana and copra growing for export is widespread, and many businesses connected with tourism have sprung up. The latter development includes a large 25-unit resort hotel, a government-owned motel complex, several family-run guesthouses, and a number of booking, car rental, and entertainment enterprises.

The sample enterprises

The survey on Aitutaki covered nine indigenous businesses involved in manufacturing, trading, transportation, and commercial growing. Two

enterprises were active in manufacturing, a bakery and a brickmaking/construction enterprise; three in retail trading (trade stores); one in transport, largely tourism-connected; and three in commercial growing, including one each in copra, bananas, and citrus.

In fact, a tenth entrepreneur was interviewed in the survey, but the case has been excluded from the main part of the following analysis because the enterprise concerned was an unusually large resort hotel owned and run by two expatriate investors (husband and wife, the latter a Fijian citizen with kinship ties to people on Aitutaki). As with the survey in Rarotonga, interviews were conducted with the owner (or one of the owners) on the site of the business, using a standard prepared questionnaire. In some cases, the interviews were conducted with the owner's present.

All of the nine sample businesses were family arrangements but the legal structures of ownership differed. There were four cases of partnerships between husband and wife, three sole ownerships, and one proprietary limited company. (The latter was the bakery, which claimed to have five family shareholders.) One grower described his enterprise as a family undertaking without specifying its legal status.

The sizes of the sample enterprises can be judged to some extent by data on gross revenues or sales proceeds. These show that in only two cases—a trade store and the bakery—did annual sales proceeds exceed \$200,000. A grower recorded gross revenues of \$50,000, but the remaining five enterprises (one other did not have revenue figures available) reported total revenues not exceeding \$17,000. Of those in the latter group, two had sales revenues valued at \$8,000, two below \$2,500.

All the enterprises except the three commercial growers were serving the Aitutaki market, including tourists and visitors from Rarotonga and other outer islands. Of the commercial growers, the producer of bananas shipped directly to New Zealand; those who grew copra and citrus channeled their products through Rarotonga, where citrus was processed for shipment as juice to the New Zealand market.

Other business characteristics

The ownership of the sample businesses under the present proprietors was longstanding. Four enterprises—the bakery, a trade store, and two commercial growers—were between 20 years and 30 years old. Three others—two trade stores and a transport venture—had been running for 10 to 19 years. The remaining two, a brickmaking venture and a grower, were under 10 years old.

Except for the bakery, all the sample businesses had been established by the present owners. The bakery had been established 30 years ago by the present entrepreneur's father.

All the enterprises had been self-financed in the sense that the entrepreneur himself (and his family associates in some cases) contributed the capital funds required to start or acquire the business. The banana grower proved the only exception; he had obtained a loan of \$400 from the

Economic Development Fund now administered by the CIDB as an incentive for growers.

Amounts of capital used to start up the business were generally very small. Values of less than \$500 were reported by five businesses, including the three commercial growers (two of whom had expended only \$200 each). Three other enterprises reported an expenditure of \$1,400 to \$2,000; the remaining entrepreneur, in transportation, had invested approximately \$8,000.

The responses indicate that family support, especially in the form of labor, had played an important part in establishing the business. However, outside assistance was resorted to in two cases: the Department of Agriculture for advice by one grower, and a local airline and a hotel for business support by the transport operator.

The survey confirmed, as in Rarotonga, a tendency for entrepreneurs to be involved in more than one economic activity. As many as six—including the copra and citrus growers—reported an involvement in agriculture as a secondary line of activity. In these cases, participation extended to both commercial and subsistence farming. For the two growers secondary activity was cultivating cash crops other than the primary product.

The survey revealed other cases of participation in secondary activities: two growers who were also public servants, a trade store owner who also managed a government-owned motel, and the baker who also ran a family trade store. The transport operator had also developed several other tourist-related services, notably a bar/disco unit and video hire. He was also the local agent for Cook Islands Airways.

The survey revealed a heavy reliance on family members working as essentially "unpaid" employees in the formal sense. All the sample enterprises used family labor in addition to that of the owner; only four enterprises reported using paid labor. Most of the unpaid family members worked part-time (16 out of 23) and were fairly evenly spread among the enterprises. Of those listed as paid labor, part-time workers also prevailed (7 out of 9), with most (5) accounted for by one of the growers.

Outside advice on their operations was being received by only two entrepreneurs—a grower drawing upon the Department of Agriculture and the brickmaker using information obtained from a source in Rarotonga. A female entrepreneur running one of the trade stores reported that she relied heavily on her husband for advice and technical support.

Entrepreneurs

The entrepreneurs were predominantly in the mature age group, with seven ranging in age from 47 to 59; the remaining two were in their early thirties. All were male except two (both traders), were married, and ethnically Cook Island Maori, except the tourist operator, who was British. Apart from the latter, all were "native" Aitutakians.

Most of the families were large; five entrepreneurs were part of family groups having at least ten members (including the entrepreneur and

spouse). The largest family totalled 15. The two smallest families, numbering four and six, were associated with the youngest of the entrepreneurs. The average of the surveyed families was nine.

All claimed church affiliations, with five associated with the Cook Islands Christian Church (CIOC). At least four were active as deacons, pastors, or secretaries in their chosen churches. As for traditional status, three held chiefly rank of whom two were mataiapo.

Four entrepreneurs had completed education beyond the primary level. Of these, two, including the expatriate, had attended technical school overseas, one in New Zealand and the other in England. Of the remaining two, one had been educated to the secondary school level and one to the university level. Of those limited to primary school exposure, two had completed grade 8.

All entrepreneurs with two exceptions reported that they had undergone training of one form or other. Several indicated training experience in more than one subject; for example, the baker had trained in New Zealand both as an electrician and as a baker. Only four respondents could be said to have trained in areas directly related to their present businesses. At least two had trained in areas that bear little relation to their business activities.

All the entrepreneurs reported that they had had previous work experience, most of them in two or three different occupations. However, as in Table 6.1 shows, a majority had been active at one time or other in work that was much the same as their present business. Thus, one of the traders had worked in New Zealand as a storekeeper, and the brickmaker had been engaged in brickmaking in Rarotonga.

Table 6.1 Previous work experience

	Number
Same as present business	6
Similar to present business	2
Different from present business	1

As with training, the work experience (or part of it) of some of the entrepreneurs had been in fields remote from their present activities. Thus one trader had worked as a teacher, the expatriate tourist operators had served in the British Navy, and two of the growers had worked for government, one as a teacher.

That the entrepreneurs have had extensive overseas experience was, as in Rarotonga, borne out by the survey evidence. Eight reported that they had been overseas, mostly for training, working, or both. Not surprisingly, New Zealand was the favored destination, with seven

entrepreneurs having visited there. Australia, Fiji, French Polynesia, Western Samoa, and Papua New Guinea were other countries visited.

On the principal occupation of the entrepreneur's father, which can be used as an indicator of family background, five entrepreneurs, including the three growers, reported that their father was either a grower or a fisherman. The fathers of two others had been public servants (one a policeman), including the father of the baker (who had established the family bakery business). The fathers of the remaining two entrepreneurs had been tradesmen—a carpenter and an electrician.

Table 6.2 sums up the entrepreneurs' responses to the question of why they had decided to go into the present business. In some cases where more than one reason was given. As is clear from Table 6.2, the principal reasons were to earn more money, to improve living standards, and to provide for the family. Keeping up the family tradition was the main concern of the baker; the wish to be independent was cited by one of the female traders, who saw it as a reflection of her own "natural stubbornness."

Of the other reasons, one entrepreneur (another female trader) admitted that she had started business because it would give her "something to do." Another (a tourist operator) admitted his interest had developed out of his role as agent for one of the interisland airline companies.

Table 6.2 Reasons for going into business

	<u>Number of Responses</u>
To earn more money/to attain a better standard of living	4
To support family/employment for family members	3
To be independent/one's own boss	1
To continue family tradition	1
To achieve ambition/interest	2
Other	2

Financial aspects

Information on the financial aspects of eight of the sample enterprises was obtained either directly from financial statements or from estimates made by the entrepreneurs themselves. Table 6.3 summarizes the

information relating to gross revenue, profit, and current value of fixed assets.

Table 6.3 Revenue, profit, and value of fixed assets

Group	Average revenue level per year \$	Average profit level per year \$	Average current value of fixed assets \$
Retailing (2)	140,000	24,000	22,000
Manufacturing (2)	175,000	2,000	36,000
Transport (1)	15,000	4,000	18,000
Agriculture (3)	4,000	1,000	7,000
Total (8)			

Fixed assets held by the sample enterprises, taken individually, were mostly small in value. Five enterprises valued their assets at below \$10,000; these included the three commercial growers, the brick manufacturer, and a trade store. The largest values were reported by the baker and one trade store owner, with fixed assets valued at approximately \$70,000 and \$30,000. Overall, the value of fixed assets averaged only \$19,000.

The pattern and distribution of gross revenue were discussed earlier, and one needs only to draw attention to the wide difference between agriculture and the other industry groups apparent in Table 6.3.

At least six enterprises reported that they realized a pretax profit in their operations over the past year or were doing so at the time of the survey. One entrepreneur (the baker) reported a small loss; another (a grower) could not provide a reliable guide on how his enterprise was doing. For the profitable group, Table 6.3 confirms that the best performances were in retail trading and transport. The retail trade profit margin of 17 percent represents a good return on sales.

Only four entrepreneurs reported that they kept funds in the form of business reserves. These included the two manufacturing enterprises, a trader, and the transport operator. The value of reserves was large in only two cases—\$38,000 for one of the manufacturers and \$15,000 for one of the traders.

Trade debts and credits

The existence of trade debts was reported by only four enterprises, all in the manufacturing and retail trading groups. The highest levels (as high as \$23,000) were reported by a manufacturer (bakery) and a trade

store, but the values concerned were not regarded as too high in relation to sales volume. The amounts reported by each of the remaining two enterprises were no larger than \$3,000.

Five enterprises were experiencing losses through bad debts, but in no instance was the estimated amount considered large. Values of \$2,000 to \$3,000 were reported by three enterprises, including the baker and a trade store (both among the largest of the sample) and only several hundred dollars by each of the remaining two enterprises.

Most of the enterprises were themselves debtors either to a financial institution or to a supplier or both. The largest amount owing was \$67,000; the most common was around \$7,000. Loan facilities with outside financial institutions included two bank loans (one an overdraft) and hire purchase.

Business expansion

On the question of what they intended to do with their profits, six entrepreneurs responded that they were going to reinvest, either by expanding the present business or by establishing a new line of activity. (One of them also planned to build up his reserves at the bank in Rarotonga.) Of the remaining two enterprises, one intended to use his profits "to build a new house" and the other to use them for "family maintenance."

Those interested in establishing a new line of business totaled four, including the three retail traders, each of whom wished to branch out into the fast food business, and the transport operator, who expressed interest in entering other tourist-oriented activities that would complement his present venture.

The two entrepreneurs who intended to expand or improve an existing business included the baker and a grower. The baker wished to purchase more machinery and to modernize his equipment; the grower, in copra making, was interested in erecting a modern dryer for his product.

Business problems

As in Rarotonga, the sample entrepreneurs were asked to identify and to elaborate upon the problems they faced in operating their businesses. Guided by a list of possible problem areas in the questionnaire, respondents indicated that the most difficult problems were connected with the market for their product, transportation, especially shipping, and certain government support services.

The survey responses are outlined as follows, roughly in order of how seriously the entrepreneurs perceived them.

Market factors

Seven enterprises responded that they were having problems connected with the market for their product or service. Among them, five identified a "small" or a "weak" market as the main problem. These included the

baker, who cited the effect two other local bakers were having on his sales, even though he was the largest producer, accounting for about 55 percent of the market. They also included the brickmaker, who complained about the "weak demand for building," and a citrus grower, who blamed "government restrictions" on his operations for the weak local market. The transport operator pointed to a weak market for his operations caused by the presence of six other rental car businesses and bus services run by the hotels and guesthouses.

The two growers, one of bananas and the other of copra, complained about poor overseas prices; the grower of bananas cited, the need to seek new markets.

Transportation

The survey results indicated, somewhat surprisingly, that problems with transportation, both sea and air, were relatively mild. In fact, six enterprises responded that transportation presented no problems at all (although two of these did not depend directly on outside transport), and one (a trader) even pointed to the current "reliable shipping schedule" to New Zealand. No reference was made to problems over interisland air services.

Of the three enterprises that faced transportation problems, one (a banana grower) complained about irregularity of shipping to New Zealand and another about problems of "damaged goods" and "short shipment."

Capital shortage

Problems with capital shortage were acknowledged by only three entrepreneurs—by two traders, one of whom needed a fairly large amount to purchase more stocks, and a grower (copra), who wished to build a new dryer.

Of the six entrepreneurs who were not experiencing capital shortage, one (a banana grower) qualified his response by saying that this was true only "so long as government continued to support the subsidy scheme." (It should also be noted that one or two in this group had expressed a wish to expand their businesses, as pointed out earlier, a wish that did not match their stated position on capital shortage.)

Government support

Seven entrepreneurs felt that they were receiving inadequate support from government. Three complained that, in effect, they were getting no help from government at all, and one, a copra grower, pointed to the comparatively generous assistance being given to the banana industry in comparison with other primary activities.

The other complaints were more specific. Two felt that taxation rates were too high; operators of the three trade stores expressed dissatisfaction with high shipping charges and the price control system, which generally provided for low markups at the retail level.

Dissatisfaction was also expressed against the CIDB for its "inadequate support to small traders."

Other problems

Problems with the shortage of skilled workers affected only one enterprise—the transport operator, who pointed to the shortage of skilled mechanics. As for sociocultural pressures only three entrepreneurs acknowledged that their business operations were being affected. Two cited "family" and "community" obligations without specifying how seriously they were being affected. A third referred to relatives "who borrow but do not repay," leading to losses through bad debts.

Finally, communication problems with New Zealand suppliers were reported by one trader. Two other traders complained about the "monopoly" position of the large stores and how their stronger buying power was being used to take advantage of the small traders. One or two respondents also referred to the high cost of electricity and cement.

The role of government

On the question of what government should do about the complaints, four entrepreneurs saw the need to improve banking services. All four suggested that a bank branch should be established on Aitutaki, a move that would call for government intervention with the local bank office in Rarotonga. Such a branch, according to one respondent, would help "make more money available for small business."

The three trading enterprises called for government to intervene in several areas pertinent to their trading interests: to break the monopoly of big business, to strengthen training institutions, to reduce taxation, and to improve shipping. One of the manufacturers (the baker) expressed the need for government assistance in direct importation of goods from New Zealand; the other (the brickmaker) saw the need for government to lower the import levy on cement and to refrain from competing with private enterprise.

The need for government to review freight and tax rates was voiced by another enterprise (a tourist operator) who also pointed out the need to improve roads and water supply.

Of the three growers, one (the banana grower) had no complaints, acknowledging that he was receiving "adequate help." The remaining growers emphasized the need for government intervention to find new markets and to negotiate better prices for their products.

Chapter 7. OUTER ISLANDS BUSINESS: ATIU

This chapter presents the results of the survey on Atiu in the attempt to shed further light on aspects of small business development on an outer island disadvantaged by small size and a degree of remoteness. The analysis is based on the findings from a short field visit to Atiu by the survey team and, as in Rarotonga and Aitutaki, the use of a questionnaire to collect information.

The relatively small number of enterprises interviewed—a total of seven—was something of a handicap to detailed analysis. However, the responses provided a reasonably useful basis for the present analysis, especially in gaining an appreciation of the major business problems encountered on Atiu.

Background

Atiu is situated 215 km northeast of Rarotonga and has a land area of 27 km². The island is volcanic, surrounded by cliffs or *makatea*, and rises to a height of approximately 70 m. Population totaled 1,225 in 1981 (a census year) distributed over five villages located at the center of the island.

Pineapple is the main commercial crop, grown mostly in the central plateau area. Coffee, fruits, and vegetables are grown commercially on a small scale. Taro and other root crops are also grown, mainly for subsistence. A major problem has been the transporting of fresh pineapples to Rarotonga for processing.

At the time of the survey the Cook Islands Statistics Office register of business establishments had on record a total of 13 private businesses on Atiu. Ten of these were indigenous businesses, of which eight were fully owned by Atiuans and two had a European local resident as a partner. Additionally, there were 27 registered pineapple growers—all indigenous—for a total of 35 fully indigenous enterprises.

According to the first Development Plan (Government of the Cook Islands 1984:229), the focus of development on Atiu was to be on agriculture, mainly pineapple and coffee, and erosion (rehabilitation), marine resources, and physical infrastructure (roads, water, and energy supply).

Business characteristics

The seven sample enterprises comprised two manufacturing ventures (sawmilling and a bakery), two retail stores, a motel, and two commercial growers. Six were partnership arrangements within the respective families; one was a sole owner. Two ventures—sawmilling and a motel—consisted of the same two partners, a local girl and her expatriate husband holding residential status. The businesses varied in age from 6 to 15 years, and each had been established by the present owner or owners.

All enterprises had been established through "self-finance," but in three cases outside loans had been secured—two from the CIBD and one from the commercial bank. The CIBD loans went to the sawmill and a grower; neither exceeded \$8,000. The loan from the commercial bank was for the motel; it was well above the CIBD level. The enterprises were mostly small in scale, some entailing only a few hundred dollars in establishment costs.

As in Rarotonga, the entrepreneurs' participation in other income-earning activities was widespread. Nearly all were active as growers, cultivating pineapple and a variety of other crops, both cash and subsistence. Two were public servants, and the common owners of the sawmill and the motel also ran a trade store.

Gross revenue levels from the sample enterprises at the time of the survey ranged from \$3,000 to \$36,000 annually—well below the range recorded for the Rarotonga sample businesses. The enterprises tended to cluster fairly evenly around the extreme values of the range: three recorded gross revenues from \$30,000 to \$36,000, the remaining four from \$5,000 to \$8,000.

Entrepreneurs

The entrepreneurs were all males, but it was evident that wives and other near relatives played important parts in managing and running the businesses. They were in the mature age range, with four of 50 or over, the rest from 30 to 40. All were married and had families. Large family size, ranging from 10 to 17 members, was reported in three cases. All claimed religious affiliations, predominantly with the CIOC.

It was apparent that at least four of the sample entrepreneurs were men of high standing in the community, due in part to their ages and their roles in business. However, it is also relevant that they occupied leadership roles in the church and in the traditional social system, which, even though somewhat weakened over time, is still observed and respected. Three of the sample entrepreneurs held the chiefly title of mataiapo.

The education level of the entrepreneurs was generally high. Two, including the expatriate, had had education at the tertiary level. (The expatriate entrepreneur had earned a Ph.D. in engineering and had also studied economics.) One respondent had attended technical school in New Zealand, and another had undergone dental training but was now a grower. All claimed to have had some training experience, although it was not necessarily related to their present occupation. At least two had received training in the public service (one in New Zealand), and another had had teacher training.

With one exception, all respondents confirmed that they had had previous work experience, mostly in unrelated areas; only two said that their experience was similar to the present business. On family background, three reported that their fathers had been growers one a public servant. Only two—a grower and the baker—had followed in their fathers' footsteps. The baker claimed that he had benefited directly from training received from his father.

As in the case of Rarotonga, the entrepreneurs have had strong links with New Zealand. All had visited New Zealand at some stage, mostly to gain experience and training.

On reasons for being in business, four respondents indicated that the wish "to earn more money" or "to achieve a reasonable living standard" was the primary motive. One entrepreneur asserted that without his present business he "could not make enough money to support a family." Of the other respondents, one said he entered business because it was "a challenge" and another because of "a longstanding interest."

As in Rarotonga and Aitutaki, there was a heavy reliance on unpaid family labor, usually working part-time. Nineteen family members, including wives but not the entrepreneurs themselves, were so engaged. Of these, a single grower accounted for eight.

Those classified as "paid" laborers totaled 11, of whom nine were part-time. Six within the latter group were employed by the motel and the sawmill. The two full-time workers were employed by a grower.

Only three businesses relied on outside sources of advice. These, the two growers and a trade store, drew advice from the Department of Agriculture. One grower used two additional sources—the CIDB and the Growers' Association.

Financial aspects

The current value of assets (both fixed and current) of the sample businesses varied from \$7,000 to \$33,000. However, all except one enterprise (a trade store) held assets valued between \$20,000 and \$33,000.

With one exception, all reported that they were making a profit, mostly small amounts. Four enterprises kept reserves, which ranged from only \$100 to \$5,000. As in Rarotonga and Aitutaki, the survey evidence confirmed that bad debts were being kept under control. Five reported bad debts, none of which exceeded \$1,000.

All the entrepreneurs but one were planning to expand their present businesses or to enter a new line of activity. The commercial growers both intended to "plant more;" the sawmill owner was interested in diversifying product lines. One entrepreneur was planning to start brickmaking.

Business problems

The survey results suggest that the most difficult problems faced by entrepreneurs on Atiu related to transportation, especially shipping, and the smallness of the local market. The attention given to transportation was compelling, far overshadowing that given to such problems as the shortage of capital and the pressures of social custom.

The main problems perceived by the respondents are outlined below, approximately in order of seriousness to them.

Transportation

Six respondents referred to continuing problems over shipping, specifically the irregularity and unreliability of shipping services. The most adamant were the two growers whose success in commercial agriculture depended on a regular shipping service and a storekeeper dependent on supplies from traders in Rarotonga. One of the growers also referred to the high costs of air freight being charged by interisland services for shipping produce to Rarotonga.

Instances were cited of heavy losses periodically suffered by pineapple growers from shipping dislocations—often the loss of an entire shipment through spoilage. The depletion of stocks caused by shipping problems also penalized local traders, not to mention consumers.

Other problems in related areas were cited—poor communications and harbor facilities and generally weak supporting infrastructures, including roads.

Market factors

Four entrepreneurs complained about the weak local market for their product. This complaint is not surprising in view of the tiny population of the island. For the two growers who produced principally for export, a major concern was the low prices received for pineapple.

Four respondents, including the two trade stores, referred to problems over local competition; one of these was particularly concerned about competition from imported items.

Government support

Six entrepreneurs indicated that government assistance to business was inadequate and needed strengthening. At least four referred to inadequate support for shipping and a failure to address transport services as a whole.

Other concerns were high interest rates for bank loans, high repayment rates for loans, unreasonable rates of taxation, and the high costs growers had to pay the Department of Agriculture for spraying crops.

Capital

Only two entrepreneurs acknowledged that they faced problems of capital shortage—a problem that one of them had been experiencing for over three years. Reference was made to an inability to obtain bank loans due to distance and isolation from Rarotonga and to loan application and approval procedures that were "too technical" and "too lengthy."

Other problems

Three entrepreneurs acknowledged that they were affected by sociocultural pressures related mainly to religious and cultural

obligations. One of these admitted that borrowing by relatives had resulted in losses through bad debts.

A serious shortage of technical workers was cited by one respondent as a major constraint, a problem he attributed to the drift of such workers to Rarotonga and New Zealand. The same entrepreneur also complained about the inordinate effort he had to devote to supervising his workers.

The role of government

From what has been said, it is understandable that the entrepreneurs agreed firmly on the need for more adequate government support in shipping and related transport services and in loan finance. Shipping should be established on a more reliable and regular footing; this end should be pursued through negotiation with shipping companies and other means. On finance, lending policies and procedures being applied to both CIBD and the commercial bank should be made less restrictive.

Several respondents pointed to the need to upgrade other infrastructural facilities on Atiu, including technical training. It was pointed out that improved training on the island itself "would ensure that school leavers will have the opportunity to acquire basic skills and to have something to do later on."

Finally, the two growers urged greater government support in two main areas: marketing produce and reducing the cost of such agricultural essentials as chemicals.

Chapter 8. WHY SOME BUSINESSES SUCCEED

The three preceding chapters have presented information on entrepreneurship and business operations obtained in detailed surveys of 44 small businesses on the islands of Rarotonga, Aitutaki and Atiu. This chapter attempts to integrate some of the major findings and to highlight the key factors that make for success in the indigenous business sector of the Cook Islands. First, however, there is a brief analysis of the sample entrepreneurs' own assessments of how their businesses were doing and their perceptions of the key factors making for success.

Business performance and outlook: Business perspective

The survey solicited responses from the entrepreneurs on whether they were satisfied with the present business situation. The responses have some relevance to judging business success in that satisfaction with the current business performance equates in some degree with success as an entrepreneur. Satisfaction suggests that a businessman has accomplished or was accomplishing objectives and goals he set for himself in the business field.

In Rarotonga, a large majority—21 of 28 sample entrepreneurs—responded that they were satisfied with the present situation. A few of these qualified their responses, referring to the "gloomy" outlook ahead, a loss in the previous year, and the burden of high overhead costs. Only three reported that they were not satisfied with the business situation (there were four ambiguous cases), largely because of "inadequate business." All nine enterprises on Aitutaki reported that they were satisfied with the way their businesses were doing. However, only two (out of 7) on Atiu were of the same view; five expressed dissatisfaction over such factors as too much competition, a high tax burden, poor labor performance, and a failure to "achieve enough." Here the removal of these perceived obstacles would appear to be a precondition for success.

The widespread satisfaction over business performance evident in Rarotonga and Aitutaki and to a lesser extent in Atiu reflects, at least in part, a state of optimism regarding the business outlook. In Rarotonga, 21 entrepreneurs expressed satisfaction with their prospects, ranging from those who were merely "satisfied" with the outlook to those who were "very happy" with prospects and who were anticipating exciting opportunities for expansion. Only five (2 were vague) saw problems ahead; two went as far as to express "gloom," with one contemplating closing down due to "high operational costs."

All enterprises in Aitutaki expressed optimism regarding the business outlook; the only exception was a transport operator who complained about competition. As expected, the responses in Atiu reported a less promising outlook because of such factors as smallness of the market and excessive competition.

To cast further light on their business performances, the sample enterprises were asked to identify and rank the main factors they perceived as making for success. As a guide, several possible reasons for success

were suggested to the responding entrepreneurs under the following broad headings: personal qualities, good management, market advantage, satisfactory government support, and other factors (including sociocultural influences). The responses are summarized in Table 8.1, which includes all but two nonresponding enterprises in Rarotonga.

Table 8.1. Factors making for success as perceived by the entrepreneurs: Rarotonga

	Number of times ranked as number:				
	1	2	3	4	5
Personal qualities	20	4	2	0	0
Good management	5	20	1	0	0
Market advantage	1	1	20	4	0
Satisfactory government support	0	0	3	17	6
Other	0	1	0	5	20

The dominance of personal qualities and the importance of good management are apparent from Table 8.1, along with a market advantage.

On personal qualities, many entrepreneurs cited personal attributes they considered necessary for success: a capacity for hard work (cited at least 18 times), honesty, reliability, and motivation. Several entrepreneurs pointed out that success also requires an ability to perceive "good possibilities," "make personal sacrifices when necessary," and be prepared at times to be "ruthless in pursuing goals." The importance of personal experience and background was also highlighted; one entrepreneur said "You must know your subject," another "It is important to know what you are doing."

At least 12 entrepreneurs stressed the importance of "good public relations" (particularly for those in trading and in tourism-related sectors). It was important to understand customer behavior and to foster good relations with them as well as with the community at large.

On the importance of good management, at least ten respondents emphasized the need to maintain proper financial and management control. The keeping of good records was stressed by five others. Several referred to practices that make for good management, including maintaining good relations with employees, being able "to outsmart your competitor," and "knowing what your customers want to buy."

The importance of market factors was highlighted by one entrepreneur, who commented that "without a market there would be no business." Among the important factors, according to the entrepreneurs, were the advantage of location, understanding the market and the size of demand, (pointed out by eight respondents), and understanding customer behavior. Reference was also made to the need of having a "good share of the market" and to the benefits of market research (especially in agriculture).

As for good government support, at least five entrepreneurs drew attention to the importance of "incentives"—the range of services and problems that conduce to private sector activity. Financial support through existing credit institutions was stressed by one respondent.

The only other notable factor highlighted by the Rarotonga results was the importance of maintaining good relations with the community as a means of combatting social-cultural pressures anathema to business.

On factors making for success, respondents in Aitutaki and Atiu generally agreed with those in Rarotonga. In both cases, the dominant requisite was perceived to be "personal qualities" (7 out of 9 cases in Aitutaki and 6 out of 7 in Atiu), followed by "good management." Personal attributes such as honesty, hard work, and reliability were again highlighted along with the capacity to maintain good customer and public relations. Good management was, as in Rarotonga, envisaged as maintaining control of finance, general operations, and staff. If anything, the market factor was given a slightly larger emphasis, particularly by those engaged in commercial farming and tourism.

A preliminary assessment

The analysis has shown that the overriding majority of entrepreneurs interviewed in Rarotonga and the two outer islands were generally satisfied with how their businesses were doing; as they saw it, their success can be attributed largely to their own personal qualities and management skills. Certain personal attributes necessary for a successful entrepreneur in the islands under review were highlighted. The application of a variety of management skills came next in importance—the ability to exercise control over finances, employees, record keeping, and the capacity to maintain good public relations with the family and community. Market advantage, including location, ranked next; it was considered of primary importance in such cases as tourism-related activities.

In light of the evidence set out in the preceding chapters, the entrepreneurs' satisfaction and generally optimistic outlook appear to rest on fairly firm ground. One reason is that many had been in business for a long time; for example, in Rarotonga, 16 of the 28 sample entrepreneurs had been in their current businesses for periods of 6 to over 20 years. These entrepreneurs were, in a sense, well ensconced in business and, with their accumulated skills and experience, they felt confident that they could continue to survive and even expand.

A second objective ground for satisfaction was that most were realizing a profit, which in some cases was substantial. Admittedly, many enterprises were realizing only nominal or modest profits, but at least they were keeping their heads above water. Only a few appeared to be suffering a loss.

Third, but not least, was the clear evidence that the sample group in all three islands was keeping control of trade debts, which have been a powerful nemesis to businesses in other parts of the Pacific region. In Rarotonga 43 percent of the sample businesses had no trade debts and a high 72 percent reported the absence of bad debts; of the 57 percent reporting

trade debts, none exceeded a relatively low \$5,000. The same pattern of controlling trade debts and bad debts was found in Aitutaki and Aitu. The ability to withstand pressure from family and community groups for trade credit beyond prudent levels is an important test of entrepreneurship. That the entrepreneurs surveyed have apparently been able to resist such pressure has, no doubt, contributed to their self-acknowledged satisfaction over their operations and success.

Other success factors

The importance of personal qualities and management skills was apparent, and the underlying qualities and attributes contributing to successful entrepreneurship as perceived by the businessmen themselves have been highlighted. Three other factors that appear to have played a part in successful business operations deserve to be highlighted: levels of education and training, overseas exposure, and involvement in secondary activities. A fourth possibility, the ability to contain the demand for trade debt, has been covered above.

Education and training

An entrepreneur's educational and training background undoubtedly plays a large part in the success of a business. For example, Croulet and Sio's analysis (1986:66) of problems that affect small business performance in Western Samoa concluded that "generally speaking, the better educated the Samoan entrepreneurs are, the more likely they will succeed or perform [well] in business."

As indicated in earlier chapters 23 of the 28 sample entrepreneurs in Rarotonga had had educational and training experiences beyond elementary school, a record that is undoubtedly well above the national level. The corresponding figures for Aitutaki were five out of nine, and for Atiu four out of seven. Those with university experience totaled nine in Rarotonga, one in Aitutaki and two in Atiu (one of whom was an expatriate). Technical training had been undertaken by five employers in Rarotonga and by at least two in the two outer islands.

The survey evidence confirms the unusually high level of education and training of the sample entrepreneurs, although the fields of education and training were often far removed from the present business involvement. It is not possible to measure the contribution of an entrepreneur's educational background to his business success but, as in the case of Western Samoa, it is safe to say that it is a vital ingredient without which an aspiring entrepreneur would be seriously handicapped.

Overseas exposure

In the context of the then territory of New Guinea, Epstein (1970) saw the value of widening an entrepreneur's perspective through travel both within the home country and outside. Such travel makes them more aware of the state of demand and export markets and encourages greater diversification of entrepreneurial activities. Epstein (1970:25) argues in favor of a policy to send New Guinean would-be entrepreneurs abroad to train and possibly to acquire experience of business life. Such training

and experience would help broaden their narrow economic horizons to the benefit of their overall business performance.

The evidence from the present surveys has highlighted a remarkable characteristic of Cook Island entrepreneurs: a high propensity to travel overseas for a variety of reasons, including migration, study at an advanced level, technical training, and employment. In Rarotonga, all but one of the sample entrepreneurs had spent time overseas—24 had worked in New Zealand alone. With one exception in Aitutaki, all entrepreneurs in the two outer islands had acquired overseas experience, including employment in New Zealand. Not surprisingly, New Zealand was by far the dominant destination, but time spent in Australia, Fiji, Western Samoa, and one or two other neighboring islands was not uncommon. It was apparent from conversations with the entrepreneurs that many had traveled to New Zealand with the intention of remaining as permanent residents to take advantage of wider economic opportunities there. In most cases the move was facilitated by the presence of many kinsmen already established as residents and workers in New Zealand. The reasons for returning to the Cook Islands seem to be associated with a range of personal factors. From the survey evidence it appears that many of the entrepreneurs returned home because of a need to attend to the settlement of family and land problems, a preference for a less hurried lifestyle, a feeling of patriotism, and loyalty to the home family. In several cases, the decision to go into business arose out of the need to earn a living once the entrepreneurs had decided to return home. It was not their primary reason for returning home.

Overseas exposure can be a major factor contributing to business success. Not only can it help to build business expertise, market connections, and experience, but it can also result in a significant inflow of capital funds. As John Tau (in preliminary draft notes) has observed: "Exposure to new ideas and skills and new approaches to business operations provides entrepreneurs with more confidence to make the necessary adjustments and improvements to their existing business operations or helps to create confidence to start a new business"; and "what the Cook Islands survey indicated is that most of these entrepreneurs with overseas training and experience (mainly from New Zealand) brought with them capital as well to start a business in the Cook Islands."

Participation in other economic activities

A notable feature of entrepreneurship that emerged from the survey was the widespread participation in other forms of economic activity, particularly in agriculture. In Rarotonga, at least 22 out of 28 businesses also operated secondary income-earning activities, of which 15 were in agriculture—commercial, subsistence, or both. In several cases, more than one secondary activity was in operation. Nearly all the sample entrepreneurs on Aitutaki and Atiu were similarly engaged.

An ability to establish and operate more than one business activity simultaneously appears to be a common factor of entrepreneurship among Pacific island countries (Finney 1973 and Croulet and Sio).

The reasons for the phenomenon are not clear and, as suggested in earlier sections further study is needed. Possible explanations include economies of scale in management; risk spreading through diversification, especially the use of agriculture as a "fallback" activity in case of business failure; the extension into commercial life of a "subsistence mentality" characterized by involvement in a multiplicity of activities; and the advantages to be gained from participating in activities that are technically complementary.

From field observations and discussions, it was clear that many entrepreneurs saw the value of involvement in more than one economic undertaking and its contribution to business success. It was reported that participation in other activities provided further opportunities for earning cash and for supporting the family, and that participation in farming ensured that food was always available. It was also reported that having more than one economic activity opened the way for interbusiness support where it became advantageous. A common example was channeling cash earnings from farming into supporting a trade store that would otherwise have collapsed continuing heavy losses. Cases were also cited of mutual support in the output from one activity could be sold through a secondary outlet (or vice versa), for example, the sale of agricultural produce through a trade store.

Chapter 9. ENTREPRENEURSHIP AND OPERATIONAL PROBLEMS: A SUMMARY OF FINDINGS

This penultimate chapter outlines the main conclusions from the empirical evidence presented in earlier chapters. It draws together the findings of the surveys relating to the nature of entrepreneurship in the Cook Islands and the major problems encountered by indigenous enterprises. The main shortcomings of existing support measures for indigenous businesses will also be touched upon. The task of identifying recommendations for the further strengthening of indigenous entrepreneurship is left for the final chapter.

Entrepreneurship

As the survey results for Rarotonga and the two outer islands have shown, indigenous businesses are typically small, with many recording only a few thousand dollars in annual sales. Most have been in operation for at least ten years, are essentially family enterprises established by the present owners (a few by parents) with very little initial capital, often only a few hundred dollars. The majority were established with the entrepreneur's (and his family's) own funds, with very little reliance on outside sources. The main motives for going into business were to earn more money, to attain a better standard of living, to support the family, and to be one's own boss.

The entrepreneurs were almost all Cook Islanders predominantly of mixed Maori-European ancestry; were in the mature age range, essentially in the 40 to 65 group (none was under 28); and were dominated by males in the ratio of just over three males for every female. These entrepreneurs tended to have large families (typically 6 to 10 members) and were active in church and community affairs. A number of them carried traditional chiefly status and held senior positions in their churches.

Their educational levels tend to be superior, many having attended secondary school and university. A high proportion had previous work experience, mostly in the same kind of business or a similar one. Overseas experience, particularly in New Zealand, was extensive and was pursued for a variety of motives, including study, training, migration, the acquisition of work experience, or a mixture of these. On family background, many had fathers who were or had been farmers or fishermen.

As often as not, the entrepreneurs engaged in other forms of economic activity while running their businesses. By far the most common secondary activity was agriculture, both cash and subsistence, but the number employed as public servants was also noteworthy.

The entrepreneurs rely heavily on the labor of their own families, and many spouses take an active part in the management and day-to-day running of the business. A large share of family labor was unpaid and rendered on a casual, part-time basis. Most entrepreneurs kept records of transactions, varying in quality from elementary to highly sophisticated; very few sought advice from outside. (In this respect, farmers were most

active in seeking advice from the Department of Agriculture, the Growers Association, and the CIDB.)

Almost all the sample entrepreneurs saw themselves as having achieved success in their professions and tended to look to the future with confidence. This sense of euphoria seemed to be based on firm grounds—faith in their own personal abilities and management skills, proven experience accumulated over the years, and the capacity to adapt to and overcome the many problems that arise from operating in a small, remote, and often volatile setting.

Business problems

Indigenous entrepreneurs face a variety of problems connected with transportation, capital shortage, market demand (and facilities), shortage of skilled workers, and inadequate government support. These problems, identified by the entrepreneurs themselves, will be examined in turn.

Inadequate transportation

The importance of transportation for island groups like the Cook Islands goes without saying. Good shipping and air links, both with the outside world and between islands, are essential to those engaged in commerce, export (including agriculture), and tourism. Transportation services in the Cook Islands are now much improved but still present problems for the business community. In shipping, some respondents in Rarotonga referred to the irregularity and infrequency of existing services and to inadequate cargo space, especially from New Zealand. Such problems occasionally give rise to shortages of basic supplies and spare parts and, according to one respondent, to significantly higher costs for goods to consumers because inordinately high stocks have to be carried. The need for improved shipping was emphasized by growers on Aitu, but those on Aitutaki were being well served by twice-monthly service from New Zealand.

The desirability of improving certain aspects of international air services was raised by several respondents, mainly in Rarotonga. Some commercial growers complained about inadequate cargo space, infrequent flights, high freight rates, and the occasional off-loading of produce. The need for more frequent flights was also voiced by tourist operators.

Market factors

The principal market-related problems facing the Cook Islands stem from its small size and geographic remoteness and fragmentation. These characteristics give rise, among other things, to a small domestic market, often extremely localized, and to heavy costs of searching out and developing overseas markets for exports. Concern over these factors was very much at the forefront in the entrepreneurs' responses.

Many respondents on all three islands—particularly those involved in domestically oriented activities such as retail trade, restaurants, and taxi services—felt disadvantaged by a "small" and "weak" local demand. In some cases this was aggravated by the effects of "too much competition" from other local groups (e.g., in trading) and by competition from imports.

Growers with major export interests felt that a stronger effort was needed to identify and develop new overseas markets and to secure higher prices. Postharvest facilities need to be improved to maintain product quality. Among tourist operators, overseas promotion of the Cook Islands as a tourist destination was seen to need strengthening.

Shortage of capital

That small indigenous businesses are often grossly neglected by the formal finance sector is a common phenomenon among developing countries. Commercial banks, the largest sources of credit, normally favor large, established enterprises with proven track records and show little concern for the special problems facing small businesses. The Cook Islands is not exempt from these weaknesses. It has, also suffered from the further handicap of having only one commercial bank, whose operations are restricted almost entirely to Rarotonga.

Problems over capital shortage were widespread, and most of the sample businesses expressed a need for capital funds with which to undertake business expansion, build up working capital, and increase stocks. Many had been turned down by the CIBD in their loan applications and were critical of the "restrictive" lending policy of this institution. Concerning the commercial bank, there were complaints against the neglect of small business, the short-term nature of loans, high interest rates, complicated loan procedures, and a general credit policy that was overly restrictive. Some pointed to the bank's monopoly position and thought it time to bring in another bank to provide competition. A respondent on Atiu who had failed in a loan application pointed to the disadvantage of distance and isolation and the unnecessarily complex loan procedures of the bank.

Shortage of skilled workers

The experience of developing countries shows that the shortage of an indigenous base of skilled workers is a serious impediment to development. The required skills cover a wide spectrum of key categories—technical, professional, entrepreneurial, administrative, and the like. Typically, this problem is largely due to the failure to anticipate the economy's needs for skilled manpower and to take appropriate remedial action. In the case of the Cook Islands, the situation has been aggravated over the years by losses through heavy emigration.

In the surveys, many respondents alluded to the shortage of skilled workers as a serious problem from the viewpoint of their own business operations. In Rarotonga, some drew attention to the shortage of basic skills; others cited the paucity of particular skills such as carving. Reference was made to emigration as being the main cause of the shortage. Respondents in the outer islands referred to the scarcity of technical workers, including mechanics, and, along with their Rarotonga counterparts, complained about problems over worker supervision and poor work motivation.

A few were prepared to carry out on-the-job training and to absorb the costs of doing so.

Insufficient government support

In any economy, government plays a vital part in fostering business and entrepreneurial activity by creating a congenial environment for investment. Such support measures normally embrace the provision of basic infrastructure and social capital, training facilities, tax incentives, and credit institutions. Appropriate measures in these fields are particularly critical for developing countries, where the risk of doing business tends to be high.

The survey revealed that a large number of entrepreneurs regarded government support for indigenous businesses as inadequate. More than half the respondents thought that government support was less than it might be or was nonexistent. One or two complained about there being "too much bureaucracy" with respect to particular support areas (e.g., in the administration of fiscal incentives).

Many aspects of government policies were cited as "problems" by respondents. Some referred to the burden of high import levies on vehicles and several other classes of imports, to the complex taxation system, to the high cost of electricity, and, for the outer islands, high shipping costs and low markups on goods under price control. Others pointed to inadequate government action in development finance, training, and agricultural marketing and to a too-liberal policy on goods that could be produced locally.

Other observations

Other problems relating to government support measures were raised in Chapter 4. Among these was a concern over the administration of various financial incentives for businesses. Present defects were said to be the length of application procedures, the existence of several legislative sources under which incentives can be applied for, and a failure to assist indigenous entrepreneurs (especially on outer islands) to take full advantage of such opportunities. On the latter point, many indigenous entrepreneurs were disadvantaged by the fact that application forms are written only in English. On entrepreneurship training, it appeared that present facilities are limited, are poorly integrated, and often offer training courses and material inappropriate for the Cook Islands. Opportunities for outer island entrepreneurs to participate were almost nil.

On particular institutions, both the CIDB and TLT have fallen short in providing advice and related support to small indigenous businesses. Training in and assistance with the technical and financial aspects of business operations need to be upgraded. Private consultancy firms, too, have not played as useful a role as they could in assisting indigenous entrepreneurs.

Finally, two other problems may be noted. First, it is apparent from Chapter 4 that the work of the agencies concerned with developing indigenous businesses remains somewhat fragmented and poorly coordinated. Second, in the designing of development policies and strategies for fostering business development, little effort has apparently been made to

secure and account for the views of indigenous entrepreneurs, let alone those of other private sector groups.

Chapter 10. RECOMMENDATIONS

This study has outlined some of the strengths and weaknesses of the small indigenous business sector in the Cook Islands as well the measures that have been instituted to support private sector development as a whole. The many problems affecting the operations of indigenous businesses have been highlighted and their implications for government policy touched upon. Particularly important were problems over transportation, marketing, development capital, and training, with the first two being especially severe for entrepreneurs operating in the two outer islands.

It remains now to present a set of recommendations (Section A) stemming from the survey findings discussed in Chapter 5, 6, and 7 and other recommendations (Section B) dealing with residual issues, including the matter of government infrastructural and policy support. It is urged that government consider implementing these recommendations as major steps toward strengthening indigenous entrepreneurship.

A. Conclusions and recommendations arising from the surveys

1. Maintain a continuing effort to improve shipping and air service. In shipping, efforts should be directed to establishing reliable and regular service with adequate cargo space, especially from New Zealand, and to meeting the shipping needs of the outer islands, both in securing supplies and uplifting export produce. Adequate air cargo space for local produce needs to be supplied, and flight capacity should be coordinated closely with tourism development.
2. Strengthen local marketing facilities and overseas market outlets. For exporting enterprises, there is a need to develop new outlets other than New Zealand and to improve local infrastructure such as postharvest storage facilities agriculture. An efficient marketing organization should be developed either within or outside the government sphere or both. The acute marketing problems faced by outer island producers must be addressed.
3. Strengthen the capacity of CIDB to cater for the needs of indigenous entrepreneurs for both development finance and business advice. CIDB's role in indigenous business development needs to be assessed with a view to strengthening its role as a catalyst. Particular emphasis should be given to increasing the funds available for lending to indigenous entrepreneurs, identifying feasible investment opportunities, following up and monitoring projects financed from loans, and strengthening advisory and training capabilities. (For other suggestions, see Annex B).
4. Improve commercial banking services for small indigenous businesses. Facilitate access to commercial bank funds for working capital and long-term investment needs, and improve services to outer islands, including the possibility of establishing bank branches on the larger islands. Lending procedures should be simplified and expressed in the vernacular. Consider encouraging the bank(s) to provide special loan schemes

for indigenous entrepreneurs, incorporating concessionary features such as longer and more flexible repayment terms and use of guarantee arrangements in lieu of conventional collateral requirements. The establishment of a second bank appears to be justified.

5. Enhance TLT's advisory services. Upgrade TLT to enable it to serve as the central unit for coordinating the national effort in this area and to provide basic advice and information to indigenous entrepreneurs, properly synchronized with the services of CIDB and other advisory agencies. Particular emphasis should be given to identifying new business opportunities, assisting in the preparation of loan submissions and loan raising, assessing market prospects, and providing technical information on an ongoing basis.
6. Reinforce training programs to build up basic business skills. Promote closer coordination of training being conducted by existing agencies (e.g., USP, the Public Service, and CIDB), and encourage private sector training such as on-the-job training and business coursework in accounting and related topics (e.g., by the Chamber of Commerce). Special training to acquire basic skills in growth industries, particularly tourism, should be emphasized. Recruitment of qualified Cook Islanders living overseas as trainers should be considered.
7. Simplify the system for collecting turnover tax proceeds. Consideration should be given to extending the collection period for submitting turnover tax returns (presently one month) or to introducing other ways of reducing the administrative burden to business.
8. Abstain from competing with the private sector where government involvement is not necessary. Identify areas where competition is occurring and clarify whether government involvement is necessary.
9. Seek to achieve a better understanding of the business sector and to improve channels of communication. Encourage participation by representatives of the local business community in formulation and evaluating national development plans and private sector development policy. Encourage the formation of a small business advisory group to consult regularly with government.

B. Other recommendations

10. Make available more information in the vernacular to indigenous business people through the media in the form of regular business programs and features for awareness of,
 - . entrepreneurial opportunities,
 - . suitable forms of incorporation,
 - . sources of advice and assistance,

- . tax regimes,
 - . the importance of small enterprises in the economy,
 - . support/incentive schemes offered and where applications can be made,
 - . implications and benefits of the Development Investment Act of 1977 and the Development Investment Code.
11. Use both vernacular and English languages on application forms for incentives, in training-course materials, and for informing the public of business information.
 12. Supply chief administration officers in the outer islands with incentive application forms and information about the Investment Act and Code to enable them to assist local entrepreneurs in their applications for investment concessions.
 13. Invest business support organizations with greater authority and resources to give practical assistance to indigenous entrepreneurs with,
 - . preparing business plans and feasibility studies,
 - . establishing appropriate recordkeeping and information systems,
 - . negotiating for bank or other loan financing,
 - . searching for joint-venture partners,
 - . undertaking incorporation and secretarial formalities,
 - . preparing tax returns, statutory forms, etc.,
 - . giving general business and management advice so that more channels for information and assistance exist.
 14. Evaluate exist government procedures and management services involved in making decisions and administering policies relating to indigenous business development and encourage the introduction of an appropriate set of investment incentives specifically for indigenous enterprises. Consider appointing a person at a ministerial level to oversee implementation of policies and ensure availability of sufficient resources.
 15. Establish an independent support organization (or incorporate functions in an existing body, such as TLT) to evaluate the possibility of coordinating training programs and research, to assess support schemes and incentives available to indigenous entrepreneurs, and to identify entrepreneurial characteristics that help ensure the effective use of resources.

16. Encourage the establishment of private consultancies, preferably ones with low overheads, to provide competition to the few large firms in existence and to provide cheaper comparable service to small indigenous businesses.
17. Make more use of successful entrepreneurs in organizing, developing, monitoring, and lecturing in training programs. Assemble a register of indigenous entrepreneurs willing to offer their services and skills to such a program.

ANNEX A

A REVIEW OF POLICIES TOWARD THE PRIVATE SECTOR

This annex highlights aspects of the Cook Islands' political and economic development that have played a part in fostering a growing awareness of the importance of the private sector and its indigenous component in the development process. The review was prepared from a draft by Ms. Janice Pearson to serve as a background paper to Chapter 4 of the full report.

Early influences

The arrival of missionaries of the London Missionary Society in the early 1820s heralded outside influence in local political activities and development. By 1840 the mission was firmly established, and commercial activities with traders under the control of the ariki had begun through missionary influence. The missionary influence declined after 1874 as the traders gained prominence. As a result of pressure by traders and fears of growing French interest, a British Protectorate was declared over the six largest islands in September 1888. Frederick Moss was appointed the British Resident for the islands, and in 1890 he convinced the ariki to form a General Council. The following year Moss set up a Federal Government of the Cook Islands, with a parliament of chiefly representatives from the southern islands of the Cook group.

During the decade of the Federal Parliament, commerce and production, including the export of bananas, expanded for the first time; districts on Rarotonga and governments on other islands were unified; the mission's political influence was reduced significantly; and many western political principles were accepted.

By 1900 there was widespread dissatisfaction with this form of government, and in 1901 New Zealand took over as the colonial power under the Cook and Outer Islands Government Act of that year.

Three this period of annexation influenced the economic and political development of the Cook Islands:

1. Cook Islands Federal Government abolished
The Federal Government, made up of elected representatives and ariki, was phased down, then abolished. Thus, Cook Islanders were denied any experience of or important voice in their own government—a situation that lasted for 50 years.
2. Traditional leadership authority reduced
Colonel Cudgeon, the New Zealand Resident Commissioner, gradually assumed all significant powers of government, thus removing the traditional decision-making powers and authority of the ariki. A period of authoritarian control followed, with local leaders

exercising little political influence. The effect was to reinforce the idea among the islanders that those who hold power tend to do what they like.

3. Opportunities for higher education closed

The London Missionary Society had established a high-quality learning institution in the form of Tereora College. The college was taken over by the New Zealand government on the understanding that it would finance and operate it. However, within a few years (in 1911), the college was closed on a "temporary" basis, and it remained closed for nearly 50 years. This action had the effect of limiting opportunities for building up new leadership and of closing off opportunities for learning the skills needed for entrepreneurial development and for securing senior positions in government.

The effect of these three events was to produce an easy-to-manage mass of people who were passive, dependent, and lacking in confidence and experience, both in government and in the private sector.

Political change

At the end of World War II more political representation was given to the Cook Islands by New Zealand in accordance with the policy of the United Nations, and in 1946 the Cook Islands Legislative Council was formed. The Council had limited effectiveness because the finance and work of government were controlled by the Resident Commissioner and administration officials. Local people were looking to foreigners (the administrators) for assistance instead of to their ariki. As a result of a constitutional review, the Legislative Council was reorganized in 1957 to form the Legislative Assembly, with 22 elected and five official members.

In 1962, consonant with the United Nations Declaration for granting independence to colonial countries, the Legislative Assembly was given a choice of four alternative forms of political development: (a) total independence, (b) self-government, (c) full integration with New Zealand, and (d) a federation with other Polynesian island groups. The Assembly unanimously chose self-government in 1963, with retention of New Zealand citizenship for Cook Islanders.

New Zealand promised continued assistance in external affairs, defense, and financial aid, and these were provided for under the Constitution Act of 1964.

The Cook Islands held elections on 20 April 1965. Albert Royle Henry became the country's first premier.

Economic development

During the 1950s and 1960s the Cook Islands economy expanded. With substantial production and export of copra and tomatoes, shipping services improved. These commodities realized good prices on the New Zealand market and facilitated the recovery of the economy. Contributing to this improvement was the establishment of a cannery for fruit juice (principally citrus and pineapple) and industry using imported cloth to manufacture

clothing for export. Agriculture was emphasized, especially citrus production for the juice factory. The commercial sector was dominated by foreigners because of their superior business sense and education and the fact that no real attempt was made to encourage local entrepreneurship.

The 1970s saw a reversal in the economic life of the Cook Islands, a major feature of which was a considerable reduction in productive capacity.

The citrus industry met problems in the 1970s when the majority of producing trees reached a stage past their maximum productivity and few new plantings had been made to sustain production. The government's replanting scheme for 1972—1978 proved largely ineffective, and the damage seemed irreparable. The gap between new and old trees was too wide, prices for citrus had dropped, and growers had become disillusioned by poor markets for their crops. In addition, the New Zealand government was growing reluctant to commit more aid money to the Cook Islands.

Another factor hindering development was a declining population and workforce as a result of emigration. The outflow of Cook Islanders to New Zealand had accelerated with the 1974 opening of the Rarotonga International Airport, allowing more frequent flights out of the country. Emigration slowed in 1976, but not before a significant imbalance in population structure had occurred, resulting, among other things, in a reduced work force having to provide for a large unproductive proportion of the population. A statement by the leader of the opposition Democratic party, Dr. T. Davis (1975:751) reflected widespread concern over the emigration issue:

From the point of view of our future development, the recent trend in emigration is alarming . . . About 75 percent of the emigrants are young families and young adults. These constitute the important part of the labor force without which development programs would be difficult to initiate and sustain . . . This general migration has taken with it qualified school teachers, carpenters, mechanics, and other skilled and semi-skilled persons.

In an attempt to counter the economic downturn, government took several initiatives. In agriculture, major emphasis was given to a subsidy scheme applying to fertilizers, replanting, and equipment such as motor vehicles, tractors, trucks, and tractor hires. In the case of copra, a price stabilization scheme was introduced in an attempt to maintain and encourage production incentives.

A major initiative was the establishment of the National Development Corporation (NDC) in 1975 to provide development finance. NDC's initial capital was \$24,000. Its purposes reflected areas in the development process that were to be emphasized:

- . to deal directly with financing development projects, rather than through government departments, at a low interest rate;
- . to provide a medium for finance to contribute to job creation;

- . to reduce imports;
- . to increase exports; and
- . to improve the quality of life through the economic activities—expected to take place through NDC's establishment—and to make the majority of Cook Islanders and the nation self-sufficient.

NDC's activities were mainly in agricultural and industrial loans in line with government priority (tourism and business had a lower priority).

The introduction of NDC appears to have had a direct impact in encouraging cash cropping for the New Zealand market, particularly in such crops as capsicum, courgettes, marrow, beans, pawpaw, tomatoes, and eggplants. It would have eased somewhat the pressure to emigrate.

Nonetheless, by the late 1970s a combination of domestic economic factors (particularly the decline of the citrus industry), and the effect of heavy emigration had produced an economy that was heavily service-based.

Policy initiatives

The response to the Cook Islands' economic woes as perceived by the government in the late 1970s was to establish more manufacturing industries and other private sector activities and to encourage the return of skilled and semiskilled Cook Islanders working abroad. As voiced by a cabinet minister of the time (Ingram 1981:23):

We have got to develop positive policies to keep the people here. That obviously means the identification of a future here by the people. That entails housing, finance to set up, Cook Islanders in business, and the development of a sound education system that will teach the necessary skills to keep the people here.

Government measures taken included raising wage and salary scales and launching an intensive overseas program, particularly in New Zealand, to entice skilled Cook Islanders back to fill key positions in both government and private sectors.

A major move was to abolish the NDC and to replace it with the CIDB. CIDB took over the assets and liabilities of the NDC in December 1978. Its capital upon takeover was \$554,000. In 1980 CIDB took over the operations of the Cook Islands Housing Corporation to centralize lending and improve coordination of lending activities. CIDB also assured the administering of certain funds for long-term agricultural crops (Economic Development Fund) and for citrus crops (Seasonal Services Advances) scheme.

The creation of CIDB as successor to NDC and its take over of various funds and housing finance was a move by government to stimulate rapid expansion in development.

From 1978 on, development of the private and commercial sectors became a high priority as a means of stemming emigration, encouraging the return of professionals and semiskilled indigenous people, and creating self-sufficiency. Earlier in 1977 government had become aware of the potential of the private sector in generating self-sufficiency, illustrated by the Development Investment Act and Investment Code introduced in that year.

A series of measures were introduced in order to boost the private sector. In 1980 a new form of taxation, the so-called Turnover Tax, was introduced. Government's reason for imposing this tax was to raise revenue to give it a greater capacity to fund development programs and cater for a greater share of ongoing recurrent costs.

In the agriculture sector, the Agriculture Department was reorganized to help raise the morale of employees and to improve efficiency. The subsidy on certain inputs was removed and replaced by a price subsidy on production. This had the effect of rewarding productive growers and reorientating incentives toward production and exports. A citrus replanting scheme was implemented, and government bought the canning and juice factory to restore the confidence of the growers in citrus. New markets in Tahiti, American Samoa, and the United States were opened to fresh produce.

In the commercial sector, a system of tendering publicly for government work or purchases was instituted. An impetus to manufacturing was provided by the Pacific Islands Industrial Development Scheme (PIIDS), which the New Zealand government introduced in 1978 to boost employment in selected countries of the region, including the Cook Islands. Under PIIDS, industries involved in sheetmetal, fiberglass products, and sawmilling were established. The value of manufactured exports increased through the 1970s despite declines in manufacturing employment. Clothing and footwear alone accounted for 43 percent of total exports values in 1984.

Expansion of tourism followed the completion of the airport on Rarotonga in 1974, with subsequent developments related largely to fluctuations in the New Zealand economy, airline fares, and flight frequency. The number of tourists actually declined during 1980—1982, but the number has steadily increased each year since 1983 due to such factors as the devaluation of the New Zealand dollar and growing awareness in northern hemisphere countries of the potential of the Cook Islands as a holiday resort. Estimated at 21,031 in 1980, the number of tourists totaled 25,587 in 1984 (Statistics Office).

Revenue from tourism reached \$3.3 million in 1975, making it the major source of overseas income in the country (after New Zealand aid) at that time (Okotai 1976:170). Net earnings from tourism now are about \$8 million.

Recent political events and policy consequences

The Cook Islands Party (CIP) took the elections of 30 March 1983, winning 13 seats to 11 Democratic seats. Some factors favoring a CIP victory included the Democratic government's unpopular decision in 1981 to lengthen its parliamentary term from four to five years, the unpopular turnover tax (regarded as regressive), the effects of the world recession, and, to some extent, disillusionment by Democratic supporters with the party's having shown some of the same weaknesses as the former CIP government had (e.g., frequent overseas traveling). Policies enunciated by the new CIP government included replacing or modifying the turnover tax, shortening the parliamentary term from five to four years, abolishing the overseas seat, and changing the national flag back to green and gold (the CIP colors).

None of the above policies could be implemented because of a split in the CIP ranks. In May 1983 a power struggle between Albert Henry's son, Tupui Henry, and his cousin Geoff Henry ensued and factions developed within the party. Tupui Henry broke away from the CIP, refusing to support any vote by them in parliament, and subsequently formed his own party. With the CIP majority leveled, the Queen's Representative, Sir Gaven Donne, met with the two party leaders, Geoff Henry and Tom Davis, and after discussions, the CIP became the caretaker government from May until elections were held in November 1983. The Democratic Party won the November elections by the same 13 to 11 margin. Upon taking office, the new government introduced a two percent sales tax in addition to the four percent turnover tax to expand the revenue base.

By early 1984 a power struggle within the Democratic Party between Vincent Ingram and Sir Thomas Davis caused a split. The Democratic Party ostracized Ingram and his supporter Papamama Pokino. The strength of the main parties was again leveled and, as there was a common wish to avoid another election so soon, a coalition was formed in March 1984 with Sir Thomas Davis as prime minister and Geoffrey Henry as deputy prime minister. Four CIP members of parliament were appointed ministers or associate ministers.

This situation crumbled in 1985. A vote of no confidence in Sir Thomas Davis by Ingram and the CIP failed when some CIP members of parliament refused to go with the vote, which was then withdrawn.

Geoffrey Henry was ousted by the government as deputy prime minister; this action constitutionally dissolved the coalition. However, the four CIP members in government positions refused to follow the dictates of their party by refusing to resign their governments posts. One of the four, Dr. Terepai Moate, replaced Geoffrey Henry as deputy prime minister, and the remaining three were accepted and confirmed in their ministerial posts in the Democratic government. This arrangement has been called Coalition II by the Democratic Party and supporters.

In January 1986 the prime minister and minister of finance, Sir Thomas Davis, announced through the media that the Cook Islands is to

have its own currency to "help overcome a cash flow problem where money is taken out of circulation in the Cook Islands by savers and travelers" (Government of the Cook Islands 1986:1). One- and two-cent coins will no longer be used, and a new \$3 bill will be introduced, as well as \$2 and \$5 coins. The currency will be valid in the Cook Islands and exchangeable in Rarotonga for New Zealand currency. The date when the new currency will be introduced has yet to be announced. Also introduced was a change in company tax rates: for resident companies, the rate was lowered from 35 to 20 percent stimulate productive investment and foster a favorable business climate.

Other projects announced by government have included a Cook Islands national airline which was being negotiated with Ansett in 1985 and now operational; a wood-burning steam-power station for Rarotonga to cost \$12 million under French aid which has yet to be finished; a \$250,000 woodburning steam plant for Mauke Island also yet to be finalized; a vanilla project initially for trial on Rarotonga before full-scale introduction on Atiu Island, yet to be implemented; and a 100-room extension of the Rarotonga Hotel with other new facilities, to cost more than \$7 million. Nearly all these projects have yet to come to fruition. They depend largely on government's obtaining or confirming the availability of overseas funding.

Summary comments

The Cook Islands government, like other Pacific island governments, has taken a major role in the development process. In the past, it had emphasized infrastructure development and major productive projects such as the citrus and pineapple schemes. (The role of government has been reinforced by foreign aid, with funds aid normally channeled through government and accessible through government departments and agencies.) However, there has been a recent trend on the part of international agencies like the World Bank, acting through national governments, to emphasize the need for improving and developing the private small-business sector in recognition of its importance in economic growth. This emphasis reflects a shift away from the traditional investment in infrastructure development to growth-oriented schemes aimed at building up productive capacity, reducing high government borrowing, strengthening the balance of payments and, in time, generating greater internal revenue.

The late 1970s saw a more determined effort by government to foster private sector development, including small indigenous enterprises. Considerable strides have been taken in introducing business incentives, a favorable tax regime, agricultural assistance, development bank facilities, and basic infrastructure such as power, airport facilities, and telecommunications.

Though official attitudes toward private business development are still evolving, much has been achieved, in the face of the many constraints, to set up a favorable climate for business investment.

A note on development planning and the private sector

The Department of Development Planning was established in 1980 in recognition of the benefits to the country that development planning would have, including:

- . helping the country make the best use of its resources,
- . giving a sense of direction to the development effort,
- . encouraging the public as well as decision makers to plan ahead when managing their economic affairs.

These aims were incorporated into the Cook Islands First Developmental Plan 1982—1985 (DPI) (see Chapter 4), the first draft of which was approved by cabinet on 7 December 1982. Because of two general elections and subsequent changes in government during 1983, the plan was not published until early 1984.

The past trends and development constraints outlined in the plan's introduction were major influences in designing the development objectives for DPI. As outlined in Chapter 4, particular attention was given to reversing economic decline and out-migration, developing natural resources, especially in the outer islands, and raising the level of prosperity of Cook Islanders.

Several points can be made concerning DPI and the sections dealing with the private sector. DPI does not clearly define private sector, nor does it distinguish indigenous enterprises from foreign or jointly owned ventures. The private sector is therefore seen as an amorphous aggregate of these separate components. The plan does, however, spell out some of the main productive components of the private sector, notably agriculture, fisheries, tourism, and manufacturing. The productive activities are those capable of contributing directly to the country's development effort, particularly in export earnings, value added, industry linkages, and general economic diversification.

The private sector is identified as being represented by farmers, the business community, and voluntary religious bodies. Strategies capable of stimulating the private sector are limiting further government expansion; providing basic services, infrastructure, and financial incentives; and, in general, improving the economic administrative framework. CIDB is seen as a major element in influencing private sector activity in productive areas through a strengthened lending capacity.

Analysis of DPI shows that there was a distinct lack of insight on the crucial issues to be emphasized and defined for optimum development. Private sector and productive activities were not meaningfully defined and confusion arises in their overlapping usages. Hence, the idea of aiming for their successful development is lost, a feature emphasized in a recent review of DPI by the Department of Development Planning. Strategies for the developing indigenous private sector, for example, were completely overlooked because this sector was not effectively defined or emphasized.

The development objectives of DPl have been criticized by the DPl review mission, undertaken by the Department of Development Planning, as too optimistic and too broad for any true measurement of their achievement. They were seen as more appropriate for the long term rather than for a three-year span.

A possibly more effective approach would be to provide a more specific set of objectives, with set targets for achievement. The planning strategies provided no clear rationale for development emphasis on any one sector. All sectors appear to have been given equal emphasis, and hence no logical step-by-step pattern could be discerned for development. Thus, the potential impact of the plan was less than it might have been.

A more specific planning strategy is needed to direct development so that each sector grows according to the country's development priorities. It is therefore up to government to devise a policy in which it details the development priorities and the sectors that should be fostered so as to achieve them.

The review mission supports this goal by voicing the need to rank the planning strategies and by recognizing government's role in devising such a policy for concentrating on development priorities.

On the development of the private sector, government must recognize the indigenous sector as an entity within the larger private sector. The importance of the indigenous business to the country's economy must be recognized as crucial to the attainment of the growth objectives of self-sufficiency, economic independence, and participation in the development process.

ANNEX B

OTHER RECOMMENDATIONS FOR CIDB OPERATIONS

1. Assess the feasibility of using the CIDB as a formal channel for application by entrepreneurs for incentives to the Monetary Board through its Business Advisory Facility as an alternative to using costly professional services.
2. Formalize a channel through which access to incentives may be improved—the Monetary Board, CIDB, or some other body.
3. Encourage closer coordination between existing agencies and services involved in the development of indigenous business to improve their effectiveness and make the best use of national resources.
4. Encourage the CIDB to seek alternative sources of finance such as syndicated loans to take advantage of lower interest rates.
5. Review aspects of existing CIDB policies that restrict equity financing and consider the purchase of controlling interests in profitable nonindigenous companies that can be held in trust for transfer ultimately to indigenous groups.
6. Improve loan appraisal procedures by improving the screening of clients and by conducting intensive marketing surveys to prevent or minimize the risk of failure.

ANNEX C
QUESTIONNAIRE

Interviewer: _____
Date: _____

SURVEY OF INDIGENOUS BUSINESS ENTERPRISES—COOK ISLANDS

The purpose of the survey is to collect information from individual business enterprises so as to gain a clearer picture of problems confronting local business and measures that can be taken to overcome them.

Your cooperation is greatly appreciated and all information will be kept strictly confidential.

The interviewer will seek your response to the following business topics:

A1. BACKGROUND

Name of business

Location

Type of business

Form of organization

Ownership structure

 Shareholders

 No. of shares owned

Length of present ownership

Total age of business

A2. HOW WAS BUSINESS ESTABLISHED OR ACQUIRED?

How was capital to start/buy business obtained?

	Percentage %
<input type="checkbox"/> Self-financed	_____
<input type="checkbox"/> Development bank loan	_____
<input type="checkbox"/> Commercial bank loan	_____
<input type="checkbox"/> Other loan	_____

- ☐ Other loan _____
- ☐ Overseas fund _____
- ☐ Other sources _____

Value of your original investment \$.....

Other forms of assistance received when business was acquired/formed,
including technical and "in-kind" assistance

Nature of other business or other business connection (if any)

Main market outlet/area (if relevant)

Reasons for going into business (social and economic)

B1. ENTREPRENEURSHIP

Entrepreneur:

Age

Sex

Marital status

Race

Size of family

Province originally from

Traditional status

Religion

Church status

Spouse:

Occupation

Race

Entrepreneur's educational level

Training experience

Previous work experience

And which considered most useful for present work
.....
Overseas experience

B2. DO YOU HAVE ANY RELATIVES LIVING OVERSEAS?

☐ YES ☐ NO

If YES, do you ever receive money from them?

☐ YES ☐ NO

If YES, about how much of your total family income in a year comes from relatives overseas?

☐ 25% or less ☐ 50% ☐ 75% or more

Do any of these relatives overseas assist you in your business in any way at all? (Describe)
.....
.....

Are all your family members wholly dependent on you and the business?

☐ YES ☐ NO

Relevant information on family background (past and present), including business involvement of parents
.....
.....

C. BUSINESS STRUCTURE (N.B. If financial reports are supplied, ignore C.1 and C.3)

C1. STATEMENT OF ASSETS AND LIABILITIES AT THE COMMENCEMENT OF BUSINESS

Date _____

<u>Owner's Equity</u>	\$	<u>Fixed Assets</u>	\$
Capital		.	
		.	
		.	
		.	
		.	
<u>Liabilities</u>		<u>Other Assets</u>	

- C2. Value of funds in reserve
 Current trade debt levels
 Estimated "bad debt" levels
 Loan/credit outstanding and main creditors
 Indicate main "suppliers," if relevant (inventors)

 Present source of business advice (if applicable)

 C3. Estimated Balance Sheet as at
 (date of the last financial year)

<u>Shareholders Fund</u>	\$	<u>Fixed Assets</u>	\$
		.	
		.	
		.	
		.	
<u>Current Liabilities</u>		<u>Current Assets</u>	
<u>Other Liabilities</u>		<u>Other Assets</u>	

- C4. How much money have you spent on expansion since commencement?

Labor:

Size of (a) family
 (b) those of working age: Male Female

Use of family labor:

. Management
 . Labor - full-time
 - part-time

Use of paid labor:

. Management
 . Clerical
 . Labor - full-time
 - part-time

D. BUSINESS PERFORMANCE

System used to keep regular records
.....
.....

Current revenue level
.....
.....

Revenue trend over recent period
.....

Outlook
.....
.....
.....
.....

Cost levels
.....

Profit/surplus or loss level
.....

If there is surplus, what is being done to it (investment)?
.....
.....

Are you satisfied with the present situation?
.....
.....
.....

Do you have plans to expand or to start a new business?

If so please describe
.....
.....
.....

E. PROBLEMS

Describe the major problems/constraints as encountered by the business venture and indicate relative importance of each, e.g.,

Market factors

. weak local market
.....

. competition from imported items
.....

- . weak marketing institutions
.....
- . other
.....
.....
- . capital shortage
.....
- . lack of business and management training
.....
.....
.....
- . too much competition from other business
- . transportation
- . inadequate government help
.....
.....
- . social/cultural pressures (e.g., traditional obligations)
.....
.....
- . lack of skilled workers/personnel
.....
.....
- . other
.....
.....
.....

In what way and to what extent have these problems affected business performance?
.....
.....

What efforts has entrepreneur made to solve these problems?
.....
.....

Views on what government can do to overcome problems
.....
.....
.....

F. "SUCCESSFUL" CASES

Major factors making for success as perceived by the entrepreneur,
ranked in order of importance, e.g.,

- . personal qualities
- . good management
- . market advantage
- . satisfactory government support
- . social/cultural factors
- . other
.....
.....

APPENDIX A

Independent assessment by interviewer of response to Sections E and F.

- E. Assess the nature and significance of the stated problems as you see them
-
-
-
-
-
-
-
-
- F. Reasons for the "success" of the business enterprise in question as you see it
-
-
-
-
-
-
-
-
-

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PIDP serves as the secretariat for the Pacific Islands Conference, a heads of government organization, and for the Standing Committee, composed of eight island leaders. PIDP's projects—requested and reviewed by the Standing Committee—respond to the development themes discussed at the First (1980) and Second (1985) Pacific Islands Conference. This process is unique within the East-West Center and in other research and educational organizations serving the Pacific.

Since 1980 PIDP has conducted research and training in nine areas: appropriate government systems, aquaculture, disaster preparedness and rehabilitation, energy, faculty development, indigenous business development, nuclear waste disposal, regional cooperation, and roles of multinational corporations in the Pacific tuna industry.

At its Tenth Meeting in January 1986, the Standing Committee endorsed a set of new projects for PIDP. These are health and nutrition, roles of multinational corporations—petroleum marketing and supply, Pacific youth, policy analysis, role of the private sector in Pacific development, and urban and rural life.

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